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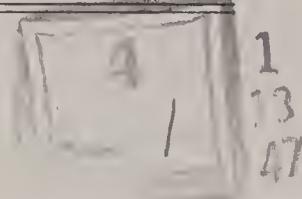






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## WARTIME ACCOUNTING PRACTICES OF THE UNITED STATES MARITIME COMMISSION AND THE WAR SHIPPING ADMINISTRATION

JANUARY 3, 1947—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

*U.S. Congress. House.*

Mr. BLAND, from the Committee on ~~the~~ Merchant Marine and Fisheries, submitted the following

### REPORT

[Pursuant to H. Res. 38, 79th Cong.]

The Committee on the Merchant Marine and Fisheries has adopted and ordered reported the following report on the wartime accounting practices of the United States Maritime Commission and the War Shipping Administration:

### WARTIME ACCOUNTING

Pursuant to House Resolution 38, Seventy-ninth Congress, the Committee on the Merchant Marine and Fisheries conducted an investigation and study of the accounting practices of the Maritime Commission and the War Shipping Administration during the war years. The investigation of the accounting system of these two agencies resulted from reports of irregularities in their accounts made by the Comptroller General of the United States concerning which the committee was informed early this year. Hearings were held on July 17, July 22, July 24, and on December 16, 1946, at which time representatives of the General Accounting Office, the Maritime Commission, the War Shipping Administration, and others were heard. For the information of all Members of the Congress, the findings, conclusions, and recommendations of the committee are set forth below.

Because of the complexity and technical nature of many of the accounting problems involved, the committee retained as accounting advisers, Col. Sivert M. Wedeberg and Lt. Comdr. C. Wilbur Cissel, after canvassing the accounting departments of a number of leading universities for suggestions as to the most competent men available.

In addition to being certified public accountants, these men have taught accounting at Yale University and the University of Maryland, and were in the accounting sections of the Army and Navy during the war years; both also have a background of commercial-accounting experience. Instructions given to these men by the chairman of the committee were to make a thorough study of the accounting systems of the Maritime Commission and the War Shipping Administration during the war years, to bring all the facts into the open, to determine the relative merits of the charges of the General Accounting Office and the defenses of the Maritime Commission and the War Shipping Administration, and to "let the chips and the heads fall where they may." The report submitted to the committee by these accountants is hereby adopted and approved by the committee and is contained in this report as appendix A.

This is an interim report and deals only with the work of the Merchant Marine and Fisheries Committee so far accomplished. In many ways, however, the surface has just been scratched and it will be necessary for a wider and more complete investigation of the accounting practices to be made by the Merchant Marine and Fisheries Committee during the Eightieth Congress. In that investigation, our object will be to determine whether or not any actual loss has occurred to the Government through fraud or waste, what other losses resulted to the Government through failure to maintain adequate accounts, and, most important, what persons were to blame for the failure to maintain adequate accounting records.

### I. CHARGES BY THE COMPTROLLER GENERAL

In his audit reports on the accounts of the Maritime Commission and the War Shipping Administration for the fiscal years ending June 1943 and June 1944, the Comptroller General of the United States made many serious charges of improper accounting practices and errors and omissions involving many billions of dollars of Government funds expended by these agencies. Because of the length of these reports and the vast number of transactions contained therein, it is impractical here to set them out in full, but their complete text will be found on pages 253 to 320 of the printed transcript of this committee's hearings. Several extracts from these reports, however, will suffice to show the general nature of the charges made and their broad scope. It should be noted at the outset, however, that the Comptroller General has not alleged that the vast sums of money involved were fraudulently taken or misused, but only that they were not properly accounted for in the records of the two agencies.

In the Comptroller General's report on the Maritime Commission's accounting transactions for the fiscal year ending June 1943 the following statements appear:

\* \* \* The audit disclosed that the accounting methods and procedures employed were not of the kind or type to result in the accurate recording of the financial transactions to the extent necessary to properly and completely disclose the results of its operations or financial condition.

It can be definitely stated that at no time during the fiscal year 1943 could the management of the Commission have been furnished current financial information of the character necessary for sound financial administration.



The audit also disclosed that the absence of care and efficiency on the part of the Commission's staff resulted in substantially inaccurate financial statements for 1943 being released as late as March 29, 1944.

The audit further disclosed that the internal audit is incomplete.<sup>1</sup>

\* \* \* \* \*

*A. Accounting procedures and practices*

1. The Commission's method of preparing its financial statements as at June 30, 1943, was in three steps:

(a) Balances taken from books totaling \$8,058,391,378.

(b) Changes and corrections of the foregoing figures in the amount of \$1,857,877,238.14.

(c) Further changes and corrections totaling \$2,100,059,819.93 to close the gap between recorded fact and actual fact.

These three steps disclose the incompleteness of the recorded accounting facts for current operational management purposes.

2. Incomplete control over adjustments for closing the gap between recorded fact and actual fact resulting in accounts being indirectly affected that would not ordinarily be involved in a less complicated procedure.

3. The internal audit is incomplete as evidenced by payments from the wrong appropriations in the amount of approximately \$30,000,000 and the voluntary repayment by contractors and vendors of over \$200,000 erroneous payments during 1943.

\* \* \* \* \*

*C. Operational practices*

1. The Maritime Commission is operating without current financial information from the accounting records.

2. The actual accounting and auditing work is not sufficiently coordinated with operations.

3. The property accountability of the Commission is unsatisfactory.

4. Receiving reports and property removal and transfer notices do not receive sufficient attention to protect the interest of the United States.<sup>2</sup>

Another example of the Comptroller General's major findings appears in his report on the War Shipping Administration's accounting activities for the fiscal year ending June 1943 which states that:

*A. Accounting procedures and practices*

1. The administration's method of preparing its financial statement as at June 30, 1943, was in three steps:

(a) Balances taken from the books totaling \$2,175,117,686.26, including \$705,668,909.62 cash on deposit with the Treasury which was not adjusted.

(b) Changes and corrections of the foregoing figures in the amount of \$326,413,253.96.

(c) Further changes and corrections totaling \$3,722,813,678.57 to close the gap between recorded fact and actual fact.

These three steps disclose the incompleteness of the recorded accounting facts for current operational management purposes.

2. Incomplete control over adjustments for closing the gap between recorded fact and actual fact.

3. The internal audit is incomplete.

A further example of the Comptroller General's findings appears in his report on the Maritime Commission for the fiscal year ending June 1944 in which he states that:

*A. Incomplete or inadequate accounting procedures and practices*

1. The Commission's book balances of more than \$10,800,000,000 required corrections and changes of more than \$5,500,000,000 before a presentation of actual facts could be made in the issued financial statements.

2. There was incomplete control over adjustments for closing the gap between recorded fact and actual fact because of complicated procedures.

<sup>1</sup> A substantially similar statement regarding the War Shipping Administration's accounts during the same year appears on p. 264 of the printed transcript.

<sup>2</sup> A substantially similar statement, excluding item 4, appears in the Comptroller General's report on the War Shipping Administration for the same year at p. 277.



3. It is believed that past deficiencies in the Commission's accounting and auditing accomplishments have been due in some measure to lack of clearly defined goals of auditing, accounting, and reporting objectives.

4. The actual accounting and auditing work was not sufficiently coordinated with the operating divisions of the United States Maritime Commission.

5. The property accountability of the Commission was unsatisfactory.

6. The receiving reports and property removal and transfer notices did not receive sufficient attention.

7. The set-off collection procedure, providing that amounts due from creditors be collected by deduction from vouchers payable, was not followed.

8. Advances to contractors were erroneously charged direct to expense or construction and were not shown as accounts receivable.

9. Employees handling cash and revenues were not bonded.

10. The receipt of partial shipments was not recorded as accounts payable, nor were property-removal notices prepared until final shipment was made.

11. The actual construction or acquisition costs were not used.

12. Machinery and equipment actually installed in a vessel were not charged to the cost of the vessel.

13. Applicable portions of United States Maritime Commission overhead were not applied as cost of ship and facility construction.

14. Depreciation on facilities was not applied as cost of ship construction.

15. Costs paid direct to contractors were not segregated from those covering materials furnished by the United States Maritime Commission.

While the 1944 report on the War Shipping Administration's accounting practices indicates that improvements had been made as contrasted with 1943, the Comptroller General still found that during 1944:

1. The Administration has determined that no collection will be made for the use of about 300 ships valued at approximately \$600,000,000, transferred to a foreign government for temporary war use.

The audit disclosed that the financial interest of the Government was not adequately protected, due to failure to recover currently, moneys due the United States.

\* \* \* \* \*

4. The audit disclosed that the accounting methods employed were not of the kind or type to result in the accurate recording of the financial transactions to the extent necessary to properly and completely disclose the results of its operations or financial conditions.

5. It can be definitely stated that at no time during the fiscal year 1944, could the management of the Administration have been furnished current financial information from the accounting records.

6. The audit disclosed that the internal audit was incomplete.

7. It is believed that past deficiencies in the Administration's accounting and auditing accomplishments have been due to the lack of clearly defined goals of auditing, accounting, and reporting objectives.

8. Improvements in the accounting methods and procedures for 1944 is noticeable as contrasted with 1943.

It will be seen that the reports by the Comptroller General do not charge that fraud or criminal misappropriation of Government funds were found. The reports do charge, however, serious break-downs in the accounting systems and accounting operations of the two agencies during two of the war years and that, as a result of these break-downs, the financial interest of the Government was not adequately protected. In this connection, it should be noted that one of the principal functions of accounting is to check on Government expenditures and to maintain a record of these expenditures and for what purposes they were made. While inadequate and incorrect accounts do not of themselves imply fraud, misuse, or misappropriation of Government funds, failure to keep accurate and complete accounts make difficult if not impossible any determination as to whether such type of loss to the Government has occurred.



## II. REPLIES AND DEFENSES BY THE MARITIME COMMISSION AND THE WAR SHIPPING ADMINISTRATION

Many of the charges and findings of the Comptroller General were admitted by the Maritime Commission and the War Shipping Administration in their written responses to his reports and in their testimony. Many errors were admitted. Objection was made to some allegations made by the Comptroller General, however, while others were admitted but an explanation made attempting to justify the action which had been taken. During the hearings, arguments were made by representatives of the Commission and the Administration that, while the accounting systems had broken down other means had been taken to safeguard Government funds. It was also contended during the hearings that the failure of the accounting systems during the war years did not matter because expenditures would have been made in any event, irrespective of the condition of the accounts. Greatly increased volume of work and inability to obtain sufficient qualified personnel were given as the reasons for the break-down of the accounting operations.

In responding to the charges made by the Comptroller General, the Maritime Commission made a most startling admission, stating in the report forwarded to the committee that:

The issues raised in the audit report are of such importance that it seems necessary to insert three special remarks at this place. They do not concern the audit report as such, but they do affect the larger question, namely, the statement of Government income and expense.

First, the Commission would have been faced with the break-down for all practical purposes of its bookkeeping system in any event. The implications of the audit report are not mentioned; namely, that the Commission had lost bookkeeping record of ship-construction material and that by 1943 there was no hope that it could be retrieved by bookkeeping methods. It is conclusive to record that \$910,494,372.11 of Commission purchases can never be allocated. In addition there are unrecorded transfers between shipyards too numerous to mention. (The foregoing amount is mentioned as \$800,000,000 in the Appropriations Committee report, top of p. 25.) There was, from 1942, no possibility that the cost of contracts or of ships would ever be known unless the whole system were revised and brought into relation with the flow of money and events. The disorder was widely known.

The whole bookkeeping system of the Commission, in which all of its activities, including shipyards, were supposed to be combined, was confused, cumbersome, and badly suited to its needs.

Another important admission made by the Maritime Commission's response was the following:

The next section of the audit report is headed "Operational practices," and consists of four general comments as follows:

1. The Maritime Commission is operating without current financial information from the accounting records.
2. The actual accounting and auditing work is not sufficiently coordinated with operations.
3. The property accountability of the Commission is unsatisfactory.
4. Receiving reports and property removal and transfer notices do not receive sufficient attention to protect the interest of the United States.

Comment: The General Accounting Office is correct on all four counts. We accept the general criticisms.

Mr. William L. Slattery, Director of Finance Construction, of the United States Maritime Commission, who had been general auditor of construction during 1943 and 1944, testified that while accounting control by the Commission had broken down and the Commission's property accountability was unsatisfactory, that the ac-



tivities of the resident auditors in each yard protected the Government against loss. His contention was that the audit made by these resident auditors of the vouchers used to authorize the payment of Government funds was such as to protect against improper expenditures. It should be noted, however, that this contention by Mr. Slattery applied only to that part of the Commission's financial transactions which were conducted at the yards and that no check was made by these resident auditors on purchases made from Washington, which he stated amounted to from 30 to 40 percent of all the Commission's expenditures. In the course of his questioning Mr. Slattery also testified that only test checks were made by the resident auditors and that they did not make time and material checks themselves but relied on the contractor's records.

The most cogent commentary on the protection afforded by the resident auditors' work appears in the Maritime Commission's report on the Comptroller General's charges in which the Commission stated that:

But it also brings up the necessity to outline the Commission's bookkeeping and cost policies. A resident auditor and staff were employed at all but the smallest shipyards. They were, generally, of a high type of auditor-accountant and many, if not most, had commercial backgrounds. This was especially true on the west coast where about half of the ships were built. Their main function, apart from expediting reimbursement, since little private capital was employed and working capital was furnished by banks with interest reimbursable, was to audit the books of the contractors leading to the approval of the public vouchers which reimbursed the contractors. It is not too much to say that this audit paid for itself over and over again, in the absence of the figures of actual disallowed costs and an estimate of the moral effect of their presence. *We know, of course, that there was waste and extravagance, Congress knows it, and it was common gossip. The shipyard auditors and their regional chiefs fought the higher approvals that sometimes seemed to be given so carelessly by those in charge, and in this fight for the public interest, some auditors lost their official heads and others came under a cloud.* [Emphasis supplied.]

Mr. Slattery gave the names of a number of these employees who had resigned under pressure or who had been separated under a cloud or who had resigned in dissatisfaction adding that "They quit in disgust."

In view of this pressure from above and the carelessly given approvals admitted by the Commission, it appears that the resident auditor system could not have adequately protected the Government's interest. In addition, the fact that it in no way covered from 30 to 40 percent of the Commission's expenditures requires the committee to conclude that there was no adequate substitute for a proper accounting system. As the Maritime Commission has admitted that its accounting system broke down, and as the War Shipping Administration has admitted to many errors in its accounting operations, the committee must conclude that all of the protection against improper expenditures normally given by an adequate accounting system did not exist during the vast wartime program of these agencies and that no proper accounting control was maintained over expenditures of billions of dollars. While no fraud or misappropriation was found through the Comptroller General's examination of the books, the fact that the Commission has admitted that hundreds of millions of dollars cannot be allocated and that millions of dollars believed owing to the Government for years is only now being collected, makes it appear that the Government may have suffered serious financial damage, although the condition of the accounting records has made detection of this fact most difficult.



## III. FINDINGS BY THE COMMITTEE

Each of the allegations made by the Comptroller General and each of the responses thereto made by the Maritime Commission and the War Shipping Administration have been closely examined by the committee's accountants. In almost every case, as will be seen from appendix A, they have supported and upheld the validity of the Comptroller General's contentions. In addition, evidence received at the hearings before your committee requires that certain additional findings and comments here be made.

One of the most distressing features of your committee's findings regarding the chaotic condition of the accounting systems of the Maritime Commission and the War Shipping Administration is that knowledge of the inadequacies of these accounts were long known and were still uncorrected. As early as November 1937, in response to a request from the Maritime Commission, the Comptroller General recommended the installation of an accounting system which he prescribed. Unfortunately, the Comptroller General's suggestion was disregarded. In May 1943, representatives of the General Accounting Office were requested by Admiral Land and Mr. Lewis W. Douglas, Deputy Administrator of the War Shipping Administration, to make an audit of the Maritime Commission's balance sheet. Because they were unable to find the basis for \$54,000,000 of adjustments made by the Maritime Commission, these representatives reported that this could not be done. Late in 1943, Mr. Douglas brought in Mr. Eric L. Kohler, a prominent certified public accountant and accounting authority, to review the War Shipping Administration's accounting system and Mr. Kohler submitted his analysis of the accounting needs of the Administration. Soon after that, Mr. J. F. Stone was retained as special assistant to the Administrator to work on the War Shipping Administration's accounts and he made additional specific and definite recommendations for required improvements and changes. The recommendations by Mr. Kohler and Mr. Stone brought forward many of the inadequacies later revealed by the General Accounting Office's audit. On August 30, 1944, Mr. Stone complained bitterly to Admiral Land that he had learned that no action was to be taken on his recommendations. In this letter Mr. Stone made the following comments:

This trial balance reveals that the accounts were in a thoroughly confused condition and that no meaningful financial statements covering any phase of the Administration's activities could be made from the existing records. This deplorable situation was not a necessary effect of the war, nor of a shortage in numbers of personnel. The facts are that known and ascertainable domestic transactions were not recorded, accounts receivable running into the millions of dollars were not recorded or billed, accounts payable and commitment records were nonexistent, the amount of simple administrative expenses had not been determined.

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As may be gathered, I have been able to do little to solve the Administration's accounting problems. My purpose in undertaking this work was to perform a badly needed service. I did not seek the assignment, nor would I have accepted the responsibility had I known of the circumstances which prevented any measure of accomplishment.

Mr. Slattery, the present Director of Finance, Construction, of the Maritime Commission, testified that the lack of adequate accounting control was known by 1942 and 1943. Despite this and despite



the General Accounting Office, Kohler, and Stone recommendations, no efforts appear to have been made to rectify this unfortunate situation. Until the revelations made by the General Accounting Office were publicized, it appears that little concrete steps were taken to establish a more adequate system of accounts. This failure by the Commission and the War Shipping Administration to take adequate measures during the following years to rectify a known condition is not understandable.

The extent of the inadequacies and inaccuracies of the bookkeeping records of the Maritime Commission and the War Shipping Administration is shown by the volume of adjustments which were required to bring the books into accord with actual fact. The Commission's preparation of its financial statement as of June 30, 1943, was in three steps. First, the balance was taken from the books totaling \$8,058,391,378.09. Changes and corrections of the foregoing figures were then made in the amount of \$1,857,877,238.14. Further changes and corrections totaling \$2,100,059,819.93 were then required to close the gap between recorded fact and actual fact. In preparing its financial statement for the same period the War Shipping Administration took balances from the books totaling \$2,175,177,686.25 (including \$705,668,909.62 of cash on deposit with the Treasury which was not adjusted). Changes and corrections in the amount of \$326,413,253.96 were then made. To close the gap between recorded fact and actual fact, it was then necessary to make further changes and corrections totaling \$3,722,813,678.57. In closing its books for the fiscal year ending June 30, 1944, the Maritime Commission's book balances of more than \$10,800,000,000 required corrections and changes of more than \$5,500,000,000 before a presentation of actual facts could be made in the issued financial statement. The books of the War Shipping Administration for the fiscal year ending June 30, 1944, were not closed until February 1945 indicating an 8-month lag between actual fact and recorded fact. It should be noted, moreover, that the General Accounting Office stated that unusual difficulties were encountered in making the numerous year end adjustments and locating the many inaccuracies in both the books and financial statements of the War Shipping Administration for that year.

In addition to the billions of dollars of adjustments made by the Maritime Commission it should be further noted that the General Accounting Office was required to make additional adjustments of their own totaling several hundreds of millions of dollars to show the true financial condition of these agencies.

The great number of adjustments which were required both to correct the books and to bring recorded fact into agreement with actual fact clearly discloses the incompleteness of the accounting records for current operational management purposes. Some adjustments would normally be required and expected in closing the books of agencies carrying on as large scale and widespread activities as the Maritime Commission and the War Shipping Administration. But the huge amounts here involved, and the high percentage of the adjustments in proportion to the total accounts of the agencies, clearly indicates something decidedly wrong with the accounting systems and accounting operations of these agencies.



Failure to keep accurate and complete accounts may result in serious monetary loss to the Government even in the absence of actual fraud or misappropriation. In the absence of proper accounting records, duplicate payments by the Government could and did occur. Erroneous payments could be and were made. Amounts owed to the Government might not be and were not collected promptly, if at all. Duplicate and excessive purchases might result from failure to keep accurate records. In the absence of adequate inventory and property controls, property losses might occur, and Government assets could be transferred to private interests. Most important is that the absence of adequate records make detection of mistakes, inefficiency, or even fraud difficult if not impossible. Moreover, in the absence of accurate and complete accounting records, management decisions cannot be made on a sound factual basis.

Failure of the Maritime Commission and the War Shipping Administration to keep adequate and complete records opened the door to all of the above possibilities, so that the possibility of Government suffering loss in the course of its unprecedented huge shipbuilding and ship-operation program was greatly increased by the poor accounting records of these agencies. It should further be noted that the very inadequacy of the records made it difficult, if not impossible, to determine whether these losses had actually occurred. As stated by Mr. Fisher, the assistant general counsel of the General Accounting Office, in his testimony before this committee:

\*                      \*                      \*                      \*                      \*                      \*

1. Are there sufficient records available to make a finding that all the money that has been disbursed has been properly disbursed?

2. Are you satisfied that the records that you have checked are in such shape that you can affirmatively say that there was no fraud?

3. Were the records sufficient that the General Accounting Office made a satisfactory audit?

It is the position of the General Accounting Office that the answer to each of those questions is "No," and the substance of the entire testimony was to that effect.

Even in the absence of any discovery of any actual fraud or misappropriation, failure to keep accurate and current accounts and complete accounts did result in serious monetary losses to the Government. Several examples will be disclosed more fully in the following paragraphs. From this it will be seen that failure to process records promptly, failure to maintain adequate accounting controls, and failure to allocate costs properly as between the Government and private individuals resulted in substantial delay in recovery of funds owed to the Government and probable loss of large amounts so owed.

A primary example of the results of the break-down of the accounting systems of these two agencies and their effect upon moneys owed the Government is shown through their failure to collect large amounts of money due and owing from private persons for many years. The General Accounting Office's report set forth seven specific items of moneys owing to the Government which the Maritime Commission and the War Shipping Administration had not collected, totaling \$23,900,000: Mr. Slattery, of the Maritime Commission,



agreed with that figure.<sup>3</sup> Some of these amounts due the Government go back as far as 1942.

Only recently and apparently only since the Comptroller General's reports, have efforts been made by the Maritime Commission to collect these amounts. Within the few weeks just preceding the hearing, over \$500,000 had been collected by a committee appointed by the Commission for this purpose. While efforts are now being made by this committee to recover amounts owing the Government, it should be noted that many of the settlements are being made on the basis of negotiation rather than on current records, it is questionable whether the Government's interests can be protected through such negotiation and in the absence of actual accounting records of the amounts due. How much of the \$23,900,000 found by the General Accounting Office to be due will be recovered cannot be predicted. Nor can it be estimated what other amounts are owing but not shown because of the inadequacy of the records and the fact that thousands of the records have not been processed by the Commission.

The practice of not promptly collecting amounts due to the Government was done by the War Shipping Administration as well as by the Maritime Commission. During war years, repairs on vessels chartered by the War Shipping Administration were made by that agency. Under the charter agreements, however, a large number of these repairs were required to be made by the owner of the ship, so that when the War Shipping Administration made these repairs they were entitled to reimbursement for them from the vessels' owners. Such repairs chargeable to private accounts had been made since May 19, 1942. Yet it was not until March 16, 1945, that a meeting was held by representatives of the War Shipping Administration "in order to establish procedures for the identification, valuation, and billing of such amounts." Mr. Joseph Quinn, the comptroller of the War Shipping Administration, was asked at the hearings to furnish the committee an estimate of the amount of repair work done for private accounts since 1942, the amounts collected from the private operators for this repair work, and the estimated amounts uncollected and due to the Government at the present time. At the time the transcript was sent to the printer, 49 days after this request was made, this information had not been submitted. No figures are, therefore, available as to the approximate amount due the Government for repairs chargeable to private account. In view of the large number of ships chartered from private operators and the hundreds of millions of dollars expended by the War Shipping Administration for their repair during the war years, it can safely be said, however, that the amount owing must be huge.

Representatives of the General Accounting Office informed the committee that nothing had been done to recover moneys due for these repairs and that nothing had been done even after the March 16, 1945, War Shipping Administration meeting referred to above. Not only has the dollar amount due the Government by these private operators not yet been recorded by the War Shipping Administration, but that agency has not even yet determined which repairs were for

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<sup>3</sup> In the examination of Mr. Slattery, counsel for the committee used through inadvertence the figure of \$21,000,000 rather than \$23,900,000 stated by the G. A. O. Mr. Slattery agreed with this \$21,000,000 figure, but it appears clear from the questioning that reference was had to the amount stated by the G. A. O.



private accounts and which were chargeable to the Government. In view of this delay, your committee fears that substantial amounts owing to the Government will probably never be recovered. It is imperative, however, that steps be initiated immediately to determine what amounts are owing and to collect whatever amounts can be collected. Your committee intends to follow this matter during the coming Congress and to check closely upon the efforts made to accomplish this purpose.

Your committee also found that the Maritime Commission and the War Shipping Administration lost accounting control of hundreds of millions of dollars of Government-owned property and inventory. As admitted by the Maritime Commission in its reply to the Comptroller General's report, the Commission had lost all bookkeeping records of ship-construction material estimated by Mr. Slattery at 30 percent of a twenty-one-billion-dollar program. An example of this breakdown in control of Government-owned property and the loss of all inventory control is shown from the fact that for several years the Commission had no record of its own warehouse at Emeryville, Calif., which contained \$2,663,186.22 of inventory actually on hand. Until the time that the General Accounting Office called this to the Maritime Commission's attention, the latter's accounting department did not know of the existence of the warehouse or the materials in it. In response to the Comptroller General's allegation of "Failure to record \$2,663,186.22 of inventory actually on hand in the Commission's own warehouse at Emeryville, Calif.," the Commission made its official reply as follows:

Comment: This is a prime example of information not available and the disorder surrounding the construction of ships without regard to cost. It was not until fiscal 1944 that this warehouse was known to be a Commission warehouse. Prior to that time it was a storage yard for construction material included in the cost of ship construction by contractors at various west-coast shipyards and so recorded on their books. When, in fiscal 1944, this property became an official Commission warehouse, an inventory of these materials was taken and subsequently recorded on the books in Washington. There is room for doubt that the inventory as recorded was relieved in relative cost at the various shipyards involved and it may be duplication, not mentioned in the audit report.

On July 1, 1945, all control over inventory in domestic warehouses maintained by the War Shipping Administration was transferred to the Maritime Commission. Prior to that time, however, the "control" maintained by the War Shipping Administration was the same as that maintained by the Commission. In a memorandum prepared by Mr. Quinn addressed to the Maritime Commission on July 26, 1945, the following statement was made:

In preparing to assume responsibility for the operation of the warehouses which were transferred from the Procurement Division by the Administrative Order No. 79, Supplement 4, this Division finds that the present records do not reflect the materials actually in warehouses, particularly in the larger and more active warehouses.

In addition to this lack of proper control over inventory in their own warehouse, no adequate records were kept of transfers of Government-owned materials between shipyards. No regular in-and-out records of Government-owned materials were kept. In the absence of removal notices and the constant diversion of materials between shipyards it cannot now be told where the material was actually used or to where it was diverted. Moreover, payments



for material purchased were made on bills of lading rather than on the basis of actual receiving reports.

An estimated 60,000 property-removal notices have not been processed by the Commission. The General Accounting Office has estimated that processing these 60,000 property-removal notices will show that there is approximately \$12,000,000 owing to the Government. A group has recently been set up in the Maritime Commission to examine these notices and to recover moneys due to the United States. Unfortunately, these recoveries, too, will have to be on the basis of negotiated settlements because of the failure to account for these amounts currently as they came due. Your committee intends to check closely on the action now to be taken by the Commission to process these papers and to recover the amounts owing to the Government.

#### IV. CONCLUSIONS

From the evidence received and the findings which we have made, your committee submits the following conclusions:

1. The accounting practices and operations of the Maritime Commission and the War Shipping Administration during the years 1943 and 1944 were not in accord with generally approved sound accounting procedures.

2. At no time during 1943 or 1944 could the accounting systems of these two agencies have been depended upon to give accurate information to the operating personnel of these agencies or to fulfill the purposes and objectives of an adequate accounting system.

3. The accounting practices of the Maritime Commission and the War Shipping Administration could not adequately have protected the Government and the taxpayer against loss from items such as duplication of payment, overpayments, overpurchases, nonreceipt of moneys due to the Government, or the control of Government-owned property and inventories.

4. The operations of the accounting system of these two agencies precluded the Government from allocating the cost of materials to ships in an amount approaching \$1,000,000,000.

5. Failures of the accounting procedures of the Maritime Commission and the War Shipping Administration opened the door to possibilities of loss, waste, overpayment, and possible fraud (although no actual fraud was discovered); and the inadequacies of their accounting practices made it difficult, if not impossible, to check upon whether such losses, waste, or fraud actually occurred.

6. The explanation given for the failures of the accounting systems of the two agencies is that adequate manpower was not available and that the rapid expansion of the agencies' business prevented them from ever bringing their accounting records into accord with actual facts. While this excuse may be partially applicable, our study leads us to the inevitable conclusion that although the weaknesses in the accounting system were known early in the war, little effort was made to correct them and inadequate attention was given to the purposes and the functions of the accounting system. So far as we are able to discover, those at the head of the two agencies made no substantial effort to install and maintain an accounting system adequate to



the expanded tasks of these two agencies. As a result of this failure, the Government is in the unfortunate position of having little practical opportunity of determining the propriety of expenditures amounting to billions of dollars. The action of heads of these agencies in failing to require the installation of an adequate accounting system is not understandable.

7. We concur generally in the statements made by the Comptroller General with respect to accounting procedures and practices as set forth in the 1943 and 1944 audit reports. With the exception of the \$1,200,000 adjustment in connection with steamship *President Madison*, the Comptroller General's correction of the major errors of omission and commission as listed in the 1943 audit reports were substantially correct. The statements of the Comptroller General with respect to operational practices and recommendations of the Comptroller General appear well founded. In view of the inadequacy of the accounting systems of the subject agencies, and in view of the large number of errors found in the course of the audit, in our opinion, the Comptroller General's certification at the conclusion of the audit reports should have been omitted. ("Subject to the foregoing comments and qualifications, the attached statements fairly present the financial position as at June 30, 1943, and the operating results for the fiscal year ended that date.")

8. The accounting records reviewed contained glaring errors, many resulting from the method of record keeping which appeared to be inadequate, cumbersome, and complicated. There was also evident a lack of coordination between the operating divisions and the Budget and Accounts Section, as well as a lack of coordination accounting-wise between the Maritime Commission and the War Shipping Administration.

9. When the Maritime Commission found itself confronted with a volume of wartime work on its hands no effective steps were taken to "streamline" the accounting methods and procedures for the purpose of eliminating useless records and simplifying the record keeping with respect to those records which were essential. This general criticism also applies to the War Shipping Administration which, being a "war-time child" of the Maritime Commission, should have established methods of accounting and reporting which could have been reasonably maintained under wartime conditions.

## V. RECOMMENDATIONS

Your committee is of the opinion that it is important for a congressional investigating committee not only to discover and report upon improper and inadequate operations of executive agencies under its jurisdiction but also to recommend measures to be taken to rectify the conditions found and to insure against a future repetition of these conditions. Accordingly, as a result of its hearings and findings, your committee makes the following recommendations:

1. Immediate steps should be taken by the Maritime Commission to collect all moneys owing to the Government. To accomplish this all property removal notices should be immediately processed, all expenditures made for ship repairs should be analyzed to determine the amounts chargeable to private accounts, and the amounts due to the



Government from private parties should immediately be billed and collected.

2. One or more members of the Maritime Commission should be given primary responsibility for the maintenance of adequate accounting records, and that member should be required to report to the full Commission monthly as to all steps being taken to insure that accurate and current accounts are being maintained. To insure that adequate personnel is available the Commission should retain several certified public accountants who have had a substantial background in accounting practice who will be directly responsible to the Commissioner in charge of accounting and who will install, maintain, and supervise an adequate accounting system.

3. The recommendations of the Comptroller General set forth in his letter to the Acting Chairman of the United States Maritime Commission, dated March 1, 1946, printed on pages 452 and 453 of the committee's printed hearings, and the further recommendations of the General Accounting Office which appear on page 393 of that transcript, should be immediately adopted. In addition, such further recommendations as the Comptroller General may make for the improvement of the accounting systems of the two agencies should be given full and thorough consideration.

4. The committee consisting of representatives of the Maritime Commission and the General Accounting Office appointed to determine measures necessary for the institution and maintenance of an effective accounting system for the Commission, established at the urging of the Committee on the Merchant Marine and Fisheries, should be made a permanent body meeting at least once monthly to insure that a close liaison between the two agencies is maintained. A monthly report should be made to this committee of the current status of the Maritime Commission's books, and a similar report containing that committee's comments forwarded to the Comptroller General.

5. Closer coordination between the Maritime Commission's operating divisions and its Accounting Division should be established, with responsibility placed upon the operating divisions to report promptly all transactions which must be reflected in the accounts. In addition, current and accurate accounting reports should be submitted to the operating divisions at regular intervals.

6. All future records of the Maritime Commission should be kept on a current basis. At the first sign of any break-down or delay, representatives of the General Accounting Office should be immediately called in for consultation and assistance. In this connection, your committee recommends that the General Accounting Office establish a special section of trained certified public accountants to be available to the Maritime Commission and other Government agencies for assistance whenever their services are necessary and that they be authorized, whether requested by that agency or not, to make periodic examinations of their accounting books and records rather than be required to wait until the time for annual audit. It is your committee's hope that by this method current checks can be made on the accounting systems of Government agencies and that break-downs in accounts can be prevented by the General Accounting Office rather than reported upon after they have occurred.

In view of the many accounting discrepancies which have already been discovered and disclosed, the Merchant Marine Committee of the

Eightieth Congress should give immediate attention toward instituting a wider and deeper investigation than has so far been made by either the General Accounting Office or by this committee, in order to ascertain whether any fraud, misappropriation, waste, or other loss to the Government resulted from the lax accounting practices.

7. Legislation should be enacted authorizing the General Accounting Office to audit and check upon the property accounts of Government agencies as well as upon their financial transactions. Your committee has been informed that the General Accounting Office at this time has no authority to check on property accounts and that accountability for property once purchased by a Government agency is solely in the head of that agency. Your committee believes that check should be made by the General Accounting Office over Government property in the same manner as is made over expenditures by the various agencies to insure against misuse or waste.

8. Legislation should be immediately introduced and enacted requiring Government officials and the heads of Government agencies to keep accurate books and records. Your committee has been informed that there is presently no requirement that Government agencies keep accurate and complete accounts and that there is now no way in which Government officials can be prosecuted for failure to do so. This legislation should, moreover, authorize the General Accounting Office to establish a standard system for keeping Government accounts, subject to adjustments to meet the needs of the individual agencies, and the Government agencies required to comply with the systems so ordered. Your committee requests the Comptroller General to prepare drafts of legislation of this type for submission during the Eightieth Congress.





## APPENDIX A

### PRELIMINARY REPORT ON THE ACCOUNTING PRACTICES OF THE MARITIME COMMISSION AND THE WAR SHIPPING ADMIN- ISTRATION DURING THE FISCAL YEARS 1943 AND 1944

SEPTEMBER 25, 1946.

Hon. S. O. BLAND,  
*Chairman, Merchant Marine and Fisheries  
Investigating Committee,  
House of Representatives, Washington 25, D. C.*

DEAR JUDGE BLAND: In accordance with House Resolution 38, Seventy-ninth Congress, and at your request as made to us by the general counsel of the committee, we have reviewed on a selective basis certain aspects of the accounting procedures and practices of the War Shipping Administration and the Maritime Commission particularly with respect to the fiscal year ended June 30, 1943, and the financial statements of that year which gave rise to the unfavorable audit report submitted by the Comptroller General.

A report setting forth our findings to date is submitted herewith.  
Respectfully submitted.

SIVERT M. WEDEBERG.  
C. WILBUR CISSEL.

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### PRELIMINARY REPORT ON COMPTROLLER GENERAL'S AUDIT REPORTS FOR FISCAL YEARS 1943 AND 1944 AND THE REPLIES THERETO BY THE MARITIME COMMISSION AND THE WAR SHIPPING ADMINISTRATION

1. In accordance with House Resolution 38, Seventy-ninth Congress, and at the request of the chairman of the Merchant Marine and Fisheries Investigating Committee, we have reviewed on a selective basis certain aspects of the accounting procedure and practices of the War Shipping Administration and the Maritime Commission. Our instructions from the chairman were to make as thorough an investigation as possible, to bring all facts into the open, to determine the relative merits of the charges of the General Accounting Office and the defenses of the Maritime Commission and the War Shipping Administration, and to "let the chips and the heads fall where they may."

2. Because of limitations on the time available (2 months) and limitations on available personnel, a thorough investigation of each individual aspect of the accounting systems of the two agencies was impossible. We have, however, made a survey of the accounting practices of these agencies during the years 1943 and 1944 and a



sufficiently detailed analysis of their workings to support our findings and conclusions. Frequent reference was made to the Comptroller General's audit working papers in the course of the survey. Our tentative findings may be summarized as follows:

(a) The accounting practices of the Maritime Commission and the War Shipping Administration during the years 1943 and 1944 were not in accord with generally approved sound accounting procedures.

(b) At no time during 1943 or 1944 could the accounting systems of these two agencies be depended upon to give accurate information to the operating personnel of these agencies or to fulfill the purposes and objectives of an adequate accounting system.

(c) The accounting practices of the Maritime Commission and the War Shipping Administration could not adequately have protected the Government and the taxpayer against loss from items such as duplication of payment, overpayments, overpurchases, nonreceipt of moneys due to the Government, or the control of Government-owned property and inventories.

(d) The operations of the accounting system of these two agencies precluded the Government from allocating the cost of materials to ships in an amount approaching \$1,000,000,000.

(e) Failures of the accounting procedures of the Maritime Commission and the War Shipping Administration opened the door to possibilities of loss, waste, overpayment and possible fraud (although no actual fraud was discovered); and the inadequacies of their accounting practices made it difficult, if not impossible, to check upon whether such losses, waste, or fraud actually occurred.

3. The explanation given for the failures of the accounting systems of the two agencies is that adequate manpower was not available and that the rapid expansion of the agencies' business prevented them from ever bringing their accounting records into accord with actual facts. While this excuse may be partially applicable, our study leads us to the inevitable conclusion that although the weaknesses in the accounting system were known early in the war, little effort was made to correct them and inadequate attention was given to the purposes and the functions of the accounting system. So far as we are able to discover, those at the head of the two agencies made no substantial effort to install and maintain an accounting system adequate to the expanded tasks of these two agencies. As a result of this failure, the Government is in the unfortunate position of having little practical opportunity of determining the propriety of expenditures amounting to billions of dollars. The action of heads of these agencies in failing to require the installation of an adequate accounting system is not understandable.

4. Based upon our review to date, we have arrived at the following tentative conclusions:

(a) We concur generally in the statements made by the Comptroller General with respect to accounting procedures and practices as set forth in the 1943 audit reports.

(b) With the exception of the \$1,200,000 adjustment in connection with steamship *President Madison*, the Comptroller General's correction of the major errors of omission and commission as listed in the 1943 audit reports were substantially correct.



(c) The statements of the Comptroller General with respect to operational practices and recommendations of the Comptroller General appear well founded.

(d) In view of the inadequacy of the accounting systems of the subject agencies, and in view of the large number of errors found in the course of the audit, in our opinion the Comptroller General's certifications at the conclusion of the audit reports should have been omitted. ("Subject to the foregoing comments and qualifications, the attached statements fairly present the financial position as at June 30, 1943, and the operating results for the fiscal year ended that date.")

(e) The accounting records reviewed contained glaring errors, many resulting from the method of record keeping which appeared to be inadequate, cumbersome, and complicated. There was also evident a lack of coordination between the operating divisions and the Budget and Accounts Section, as well as a lack of coordination accountingwise between the Maritime Commission and the War Shipping Administration.

(f) When the Maritime Commission found itself confronted with a volume of wartime work on its hands, no effective steps were taken to "streamline" the accounting methods and procedures for the purpose of eliminating useless records and simplifying the record keeping with respect to those records which were essential. This general criticism also applies to the War Shipping Administration which, being a "wartime child" of the Maritime Commission, should have established methods of accounting and reporting which could have been reasonably maintained under wartime conditions.

5. The major errors of omission and commission, as set forth in the audit reports for the year ended June 30, 1943, are discussed in detail later in the report. With the possible exception of the opinions set forth in the foregoing subparagraph (f), it is considered that the detailed discussion on the major errors will substantiate the tentative general conclusions stated above. However, it seems appropriate at this point to make a few observations concerning items which might be overlooked in the details appearing later in the report. Furthermore, it is believed that certain of these items support the opinion contained in subparagraph (f).

#### ACCOUNTS PAYABLE (WITH RESPECT TO COMPLETED VESSELS)

6. The accounting treatment of some items was so farfetched that it was almost unimaginable. Although, significantly, the Maritime Commission did not prepare a detailed schedule of accounts payable to support the figure shown on the June 30, 1943, balance sheet, an examination of the procedure followed in arriving at the figure used revealed that the total accounts payable was decreased by the excess of recorded cost of ship construction over estimated cost of such construction. For example, in one instance alone the total accounts payable of the Maritime Commission was decreased by an amount in excess of \$11,000,000 because of the fact that the actual cost as recorded on the books exceeded the cost as estimated by the Budget and Accounts Section of the Finance Division. The details are as follows: Cost-plus contract MCc-2474 was entered into under date of



March 12, 1942, with W. A. Bechtel Co. (later named Marinship Corp.), Sausalito, Calif., for 15 EC2 Liberty ships. With respect to 13 of these ships which had been completed as of June 30, 1943, the adjusted contract price was \$29,466,666.59. The Technical Division of the Maritime Commission estimated costs at \$24,700,000. The Budget and Accounts Section of the Finance Division (Maritime Commission) estimated the cost at \$26,000,000 (or \$2,000,000 per vessel).

The costs actually recorded on the books as of June 30, 1943, on the 13 completed vessels amounted to \$37,404,012.11. For balance sheet purposes the Maritime Commission subtracted the estimated cost of \$26,000,000 from the recorded cost of \$37,404,012.11, and decreased the accounts payable by the \$11,404,012.11 difference. The above illustration covers only the completed vessels on one contract, and therefore the total decrease in accounts payable resulting from this apparent perversion of accounting principles is substantially in excess of the \$11,000,000 item cited.

#### BILLS OF LADING AS A BASIS FOR PAYMENT OF INVOICES

7. Material, in many cases, was purchased by the Commission, delivered to the various shipyards, receipted for by shipyard employees, and paid for by the Commission. Receiving reports were received and filed by the Commission but no comparison was made of the items appearing on the vendors' invoices with the items appearing on the receiving reports. Instead of using the receiving report as a basis for the payment of the public voucher, it was the practice of the Maritime Commission to use a copy (not the original) of the bill of lading for this purpose. So far as can be determined the various copies of the bill of lading were never matched or compared. Although the Maritime Commission maintained a bill of lading file against which to check invoices, it is understood that, if the proper copy of the bill of lading could not be located, another copy of the bill of lading would be used as the basis for approving the invoice.

8. These practices created a situation conducive to the making of duplicate payments and overpayments. Duplicate payments might easily result when a contractor, not having received payment on his first invoice, transmitted a second invoice for the same material. Both the original and the duplicate invoice might have been paid in full, particularly since, in instances where the proper copy of the bill of lading to be checked against invoices could not be located, it is understood that some other copy of the bill of lading was used to effect payment. (If the contractors had known the system used in the payment of invoices without the use of receiving reports and without matching the bill of lading copy with the original bill of lading, and had they also known which copies were used for purposes of matching with the invoice, it would have been relatively simple to render a fictitious invoice based on a copy of the bill of lading which did not agree with the original.)

9. Overpayments may have resulted in connection with the purchase of steel plates in the following manner. When there were shortages in the number of plates, over-short and damaged reports were prepared, but it appears that some producers merely issued a corrected invoice for the number of plates and did not change the original



total weights shown on either the bill of lading or the invoice. Since the price was based on total weight, rather than on number of plates, the invoice would be paid at the original amount. Similarly, no change apparently was made in the amount paid for freight with respect to such steel plates. Since the Comptroller General did not have authority on some types of contracts, such as contracts that did not involve cost determination, to visit the steel mills for the purpose of checking on the basis of billing for steel, it is possible that the committee might wish to investigate this angle further. The practices in weighing the steel should not be overlooked.

#### UNRECONCILED CASH BALANCES

10. A spot check of appropriation symbol accounts for cash as maintained by the War Shipping Administration indicates that a large number of these accounts were not reconciled as of June 30, 1943, which fact casts considerable doubt upon the validity of the figures shown on the balance sheet under the asset caption of "General funds." We have been informed that approximately 100 of such appropriation symbol accounts are maintained by the War Shipping Administration. An examination of the audit working papers prepared by the General Accounting Office in connection with the June 30, 1943, audit indicated that 22 of these accounts had not been reconciled correctly as of the balance sheet date. A representative of the War Shipping Administration was contacted for the purpose of determining whether or not these 22 cash accounts have now been reconciled and he stated that as of the present date (September 9, 1946) 21 have not yet been reconciled. (See Exhibit 1.)

11. It is noted that in its comments relating to the general funds shown in the June 30, 1943, statement of assets and liabilities, the War Shipping Administration made the following statement:

"The balances of all appropriations and working funds have been reconciled with the balances of the United States Treasury. The symbols, titles, and balances are shown in schedule A-1-1-."

The foregoing paragraph 10 indicates that this statement was a misstatement of fact.

12. The condition of the appropriation symbol accounts maintained by the Maritime Commission has not been reviewed.

#### ACCOUNTS RECEIVABLE

13. The methods followed by the Maritime Commission and the War Shipping Administration in handling accounts receivable seemed to be cumbersome and complicated and did not appear to protect adequately the interests of the Government. (For example, see discussion of errors No. 8 and 19 on the 1943 War Shipping Administration audit report, and the discussion of error No. 7 on the 1943 Maritime Commission audit report.) In many instances the cash was actually collected and the receivable credited before the receivable had been recorded on the books. This resulted in large credit balances appearing in accounts receivable in the books as of the close of the 1943 fiscal year (in the case of the Maritime Commission, June 30, 1943—\$41,931,031.16), which balances were analyzed and ad-

justed before arriving at the final debit balances which were shown as assets on the balance sheets.

14. That this procedure was detrimental to the interests of the Government is indicated by the large number of errors apparent in the June 30, 1945, figure as shown by the Maritime Commission. Upon hearing that the General Accounting Office, currently conducting the audit for the year ended June 30, 1945, was attempting to confirm the accounts receivable shown on the Maritime Commission books with the figures shown on the books of the various debtors involved, we contacted the General Accounting Office representative for information as to the results of such confirmation. Although it should be understood that many replies have not yet been received (as of September 9, 1946), the results to date may be summarized as follows:

	Num- ber of debtors	Total amounts receivable	
		Per USMC statements	Per debtors' books
Accounts receivable, all programs, per USMC published statement, June 30, 1945.....		\$150,755,752.59	
Letters of confirmation mailed to Sept. 9, 1946, where account balance is over \$1,000.....	558	50,704,104.72	
Confirmed as correct.....	19	1,276,726.31	\$1,276,726.31
Confirmed as correct and check enclosed.....	1	1,973.23	1,973.23
Disputed by debtors:			
(a) Accounts payable to USMC as shown on debtors' books is greater than accounts receivable as shown on USMC books.....	4	20,834.75	32,331.09
(b) Accounts payable to USMC as shown on debtors' books is less than accounts receivable as shown on USMC books.....	32	668,883.32	420,104.88
(c) Amounts denied or not conceded by debtors.....	34	8,861,802.59	
(d) Accounts receivable as shown by USMC is actually accounts payable of the USMC as shown on "debtors' " books.....	9	659,217.65	<sup>1</sup> 638,795.21
(e) No amount confirmed but "debtor" requests additional information.....	109	5,891,045.93	
Total replies received to Sept. 9, 1946.....	208	17,380,483.78	

<sup>1</sup> Represents accounts receivable on "debtors'" books.

15. It is noted that only 20 debtors out of the 208 who made reply confirmed the amounts as shown on the books of the Maritime Commission. Attention is called to the fact that \$659,217.65 shown as accounts receivable on the books of the Maritime Commission should be, according to the "debtors," \$638,795.21 of accounts payable.

#### VOYAGE ACCOUNTING

16. The method of accounting for voyages is illustrative of the failure to streamline the accounting system in the light of wartime conditions. Traditionally, total ship operating expenses and revenues were accumulated by voyages. So far as can be determined this practice originated with the Venetians at a time when most voyages



were joint ventures and when it was necessary to accumulate all expenses and revenues with respect to a particular voyage in order that the final profit (or loss) might be equitably divided between the participants. This method of accounting, in which the voyage was the accounting unit, was in use by the industry at the beginning of the war. The costs of the voyage were further broken down into the major items of expense, such as, wages, fuel, subsistence, stevedoring, etc.

17. Although it is recognized that such information might be useful under peacetime conditions (provided the information so collected is carefully analyzed for the purpose of increasing the efficiency of ship operations), no useful purposes could have been served under wartime conditions where ships were knowingly operated regardless of efficiency and where it was also known that sufficient personnel would not be available for such analysis. From the viewpoint of one who has not been steeped in shipping industry accounting methods, it appears elementary that the accumulation of principal items of ship operating expense (voyage wages, voyage subsistence, etc.) by time periods (a month or a year) would have been more than adequate under wartime conditions, and would have saved thousands of man-hours of accounting effort spent by the War Shipping Administration at a time when the saving of man-hours was a national problem. (This contention is supported by the fact that in very recent weeks the War Shipping Administration has abandoned the accumulation of expenses and revenues by voyages. Furthermore, we have been informed that no use has apparently ever been made of the voyage accountings accumulated to date of abandonment.)

18. This "blind" acceptance of an industry's peacetime accounting methods for use during a war emergency indicates a lack of foresight, planning, and comprehension of accounting under emergency wartime conditions. Fortunately for the Nation the actual construction of ships was not approached with this philosophy.

#### MATERIAL AND LABOR CHECKS

19. Information secured from conversations with various employees of the Maritime Commission (and, in some instances, the War Shipping Administration) indicates that in many instances labor and material checking was not performed as part of the current auditing procedure and in most instances where such checking was performed it was generally considered to be ineffective.<sup>1</sup> Although there was in some instances time checking "at the gate," this is considered a weak substitute for an effective labor check "on the job." Since labor and material costs constitute the major portion of total costs reimbursed on public vouchers (Form 1034), the mere acceptance of such costs based on records maintained by the contractor did not, in our opinion, adequately protect the Government's interest. It is recognized that the personnel shortages of wartime may have accounted for the absence of material and labor checking; however, in our opinion, such checking is considered to be a most important

<sup>1</sup> A responsible official of the Maritime Commission, in discussing the Commission's labor and material checking activities, stated that such checking was generally ineffective for the following reasons: (1) Personnel were not obtainable for this work; and (2) when men were available, he considered that their work was not effective because (a) the men themselves loafed, and (b) they were often subject to interference from the contractor's employees. (There were instances where attempts were made to drop small tools, etc., on the checkers.)



function in any audit program for the current verification of contract costs (exhibit 9).

#### GIFTS TO SHIPS SPONSORS

20. The practice of giving gifts to the sponsors of new vessels has been given widespread publicity. Furthermore, the fact that a large number of close relatives (wives, daughters, etc.) of War Shipping Administration and Maritime Commission officials and employees were the recipients of such gifts, is also well known. It is considered unfortunate that included in this group were a number of close relatives of employees engaged in auditing costs (for reimbursement purposes) at the various shipyards. Although, undoubtedly, there were many auditors whose decisions were not influenced by such gifts, it is considered that there might be some doubt as to the effectiveness of the audit program in other cases. Since, basically, the effectiveness of the Maritime Commission audit rested upon the effectiveness of the resident auditors, we consider that this practice of giving and receiving gifts cannot go unmentioned in appraising the integrity of the accounting and auditing records.

#### PROCEDURE IN PREPARING STATEMENTS

21. Frequent reference in the following pages will be made to "Accounts distribution journal vouchers" and "Balance sheet journal vouchers." In order that these terms may be completely understood it seems advisable at this point to explain the procedures of the Maritime Commission and the War Shipping Administration in connection with the preparation of the statements for the fiscal year ended June 30, 1943.

22. During the fiscal year 1943 the two agencies maintained their accounts to a large extent on a cash basis as, generally, entries were made in the accounts only when cash was actually received or disbursed. (See Maritime Commission major error No. 18.) In the preparation of the working papers supporting the financial statements, the book balances (arrived at as stated above) were used as the starting point. The next step was to analyze the accounts—especially the so-called clearing accounts and suspense accounts—and by means of the accounts distribution journal vouchers any amounts affecting other accounts were transferred to the accounts affected on the working papers only.<sup>2</sup> It will be noted that the accounts distribution adjustments were not actually posted to the ledger accounts in the books.

23. The last step in adjusting the book figures to the figures used in the published statements was the preparation of balance sheet journal vouchers and the entering of such vouchers on work sheets. In effect, the balance sheet journal vouchers were prepared for the purpose of putting the statements on an accrual basis. Accordingly, two types of items were included in the information recorded on these vouchers: (1) Items which were actually recorded on the books in the regular course of business subsequent to June 30, 1943, but which

<sup>2</sup> The audit working papers of the Comptroller General indicate that officials of the accounting departments of the two agencies stated that many analyses were incomplete or not undertaken with respect to the June 30, 1943, statements because of the necessity of meeting a deadline date and because of inadequate experienced personnel.



applied to the period ended on that date; and (2), items which had not been recorded on the books as of the actual date of preparation of the statements, but which were necessary for inclusion in the statements as released. Attention is called to the fact that these balance sheet journal vouchers were never posted, as such, to the books.

24. This is another illustration where the procedure, in our opinion, appears wasteful of accounting man-hours and is so cumbersome as to be conducive to the making of errors. This is another case where the attempt to use peacetime procedures appears to have led to the extravagant use of "suspense" and "clearing" accounts in a futile effort to keep the records current; and this, in turn, may partially account for the use of the foregoing time-consuming procedures in a futile attempt to release accurate financial statements. Again, it appears that if an intelligent effort had been made in the early days of the war to simplify accounting procedures and methods, what now appears to be "accounting patchwork" might have been avoided and many man-hours saved in its avoidance.

#### INADEQUATE REPORTING PROCEDURES

25. In any organization having a wide scope of activity it is considered essential, in order to have accurate accounting records, that procedures be established and effectively carried out to insure the prompt flow of information from the operating divisions to the accounting division. Obviously, if the accounting division does not promptly receive necessary accounting information the accounting records will be in error to the extent of the deficiency. As is indicated in the following discussion of the major errors of omission and commission as set forth in the Comptroller General's audit reports, it is apparent that, although information from some operating divisions flowed smoothly to the Budget and Accounts Section (of both the Maritime Commission and the War Shipping Administration), in many instances information did not appear to reach the accounting section within a reasonable period of time, and in some instances it never reached the section. Although we have not determined whether this failure to receive information promptly was due to the non-existence of workable reporting procedures or whether it was due to failure to enforce such procedures as may have been established, this is considered to be an important obstacle to the attainment of accurate accounting which should have been brought to the attention of "top-side" accounting personnel and promptly overcome.

#### MAJOR ERRORS OF OMISSION AND COMMISSION AS SET FORTH IN THE AUDIT REPORTS OF THE COMPTROLLER GENERAL FOR THE FISCAL YEAR ENDED JUNE 30, 1943

26. In order to eliminate the necessity for reference to the Comptroller General's audit reports and the replies thereto by the Maritime Commission and the War Shipping Administration, the major errors of omission and commission as set forth in the audit report will be restated in full followed by the reply or by pertinent excerpts therefrom. Facts developed in the review will then be presented together with any necessary explanatory remarks or comments. Although the desirability of nontechnical language in the following discussion



is recognized, it is considered that, in certain instances, the restatement in nontechnical language of the procedures employed with respect to the item would fail to reflect clearly the methods actually followed.

## MARITIME COMMISSION

"1. An advance of \$2,000,000 to the Kaiser Co., Richmond, Calif., was charged to shipways and facilities. This was incorrect. The item should have been set up as an account receivable. It was actually collected July 27, 1943."

## 27. Reply:

"On October 23, 1942, the Commission authorized an interest-free advance to Kaiser Co., Inc., for the Richmond housing project (part of the facilities) to be repaid as a set-off against moneys due under the contract. Nine months later, just after the close of the fiscal year 1943, the advance was liquidated, and since it had been made in the first instance for a specific reason under known circumstances, it could have been handled in a variety of accounting entries. Suffice it to say that when this transaction was completed for a total expenditure of \$13,467,600.41, a result well within the limits of reasonable forecasting, the net result was an amount of \$178,582.26 owing to the contractor in final settlement. The criticism is debatable."

28. Comments<sup>3</sup> and opinion:

During October 1942 the Commission authorized a \$2,000,000 "interest-free advance" to Kaiser Co., Inc., to meet the working capital requirements of the Richmond shipyards' housing project. It was apparently recognized by the Commission that the repayment of the subject \$2,000,000 might be made "from a set-off" by the Commission against a \$2,000,000 payment due on the \$13,191,200 project. The Maritime Commission stated in its reply that this item "could have been handled in a variety of accounting entries." It would appear however, that since the Commission action clearly identified this item as an "interest-free advance," the item should have been recorded in the accounts as such.<sup>4</sup> Accordingly, it is considered that the comment in the audit report with respect to this item was warranted.

## MARITIME COMMISSION

"2. The recorded cost of ship construction for the Navy Department exceeded the funds advanced by the Navy Department for such construction by \$7,213,693.44. No account receivable was set up to cover these costs."

<sup>3</sup> The bookkeeping with respect to this item was in part as follows:

(a) In November 1942, account 389 entitled "Other Deferred Charges and Prepaid Expenses" was increased by \$2,000,000 (contract MCc-2048; voucher 43-X-2119).

(b) Voucher 44-X-625 (paid in July 1943) showed an amount of \$2,178,582.26 from which was deducted \$2,000,000, leaving a net figure of \$178,582.26. The net figure was posted as an increase to account 356-D entitled "Shipbuilding and Other Plant Facilities—Housing Facilities." It was noted, however, that the actual ledger card to which this net figure was posted was entitled "Kaiser Co., Inc.—General" rather than to "Kaiser Co., Inc.—Housing Facilities." (This posting to the incorrect subsidiary ledger account had not been transferred to the correct subsidiary ledger account at the time of our inspection—August 23, 1946.)

(c) In February 1944 the \$2,000,000 amount was transferred out of account 389, "Other deferred charges and prepaid expenses" into account 356-D, "Shipbuilding and other plant facilities—Housing facilities—Kaiser Co., Inc.—MCc-2048." The explanation on the journal voucher (MJV 44-1180) effecting the transfer was as follows: "To adjust coding of voucher 43-X-2119, housing project No. 1, progress payment No. 53, CP213."

<sup>4</sup> Budget-Treasury regulation No. 3, relating to quarterly financial statements of Government corporations and enterprises, dated September 1, 1944, requires that amounts advanced for the purchase or manufacture of materials and equipment or the construction of plants and other property be reported as assets under the caption "Advances to contractors and agents."



## 29. Reply:

"If the overwhelming impact of all-out war throws into the background the necessity for refinements in the accrual accounting to which the Commission was committed, and if this factor is admissible, then this item is typical of the nonnecessity for such refinement of accruals, because, in a last analysis, *so long as no irregularity or loss is involved*, it makes little difference where the final cost of joint Government war construction such as this shall finally lodge, either to the Maritime Commission, the Navy Department, or to the taxpayer as well. In this instance, the appropriation committee says it is not worth while to make the adjustment."

## 30. Comment and opinion:

The reply admits but does not justify the original error.

## MARITIME COMMISSION

"3. Twenty-three accounts receivable involving renegotiated contracts amounting to \$8,099,340.09 were not set up."

## 31. Reply:

"The General Accounting Office is correct, but it remains to be stated that it was very difficult to obtain information concerning items of this nature and seldom was this information known within the fiscal period of the transaction. It is also pertinent to state under this heading that of the 23 items mentioned, one for \$16,642.87 on the renegotiation contract No. 16668 with the Berkeley Steel Construction Co., the Commission's approval was sought by the Price Adjustment Board, September 18, 1943, and approved by the Commission on September 23, 1943, and therefore was not a transaction of the fiscal year under audit."

## 32. Comments and opinion:

It is noted that the reply does not question the correctness of the Comptroller General's adjustment with the exception of the Berkeley Steel Construction Co. item. Failure to include 22 of the 23 accounts receivable is therefore admitted.

33. With respect to the questioned item it apparently is true that the Commission approved the renegotiation agreement on September 23, 1943; however, such approval was made as of June 2, 1943. Furthermore, it is noted that the Berkeley Steel Construction Co. item was included in the "Summary of the results of renegotiation by the Price Adjustment Board of the United States Maritime Commission as of June 30, 1943." Accordingly, in our opinion, the Comptroller General was correct in respect to this item also. (It should be noted that the financial statements of the Maritime Commission were not issued until March 29, 1944. Although the exact date of release of the above-mentioned "Summary of the results of renegotiation" is not known, certainly this information must have been available prior to March 29, 1944.)

34. The statement in the reply that "it was very difficult to obtain information concerning items of this nature" appears deserving of comment—especially in view of the statements made in the foregoing paragraph 25. Unless there are some difficulties which are not apparent, it would appear to be an elementary problem to establish and

enforce adequate procedures for the prompt reporting of necessary accounting information from the Price Adjustment Board to appropriate personnel in the accounting section.

## MARITIME COMMISSION

"4. Duplication of adjusting entries involving working funds totaling \$66,812,880.50."

## 35. Reply:

"A duplication of post closing journal entries caused this error and the Comptroller General's criticism is well laid. Beginning with the preparation of the 1945 balance sheet, however, the procedure of post closing journal vouchers was voluntarily ended as the result of an extensive survey of procedures and practices which involved many improvements in the procedure of fiscal year-end adjustments."

## 36. Comments and opinion:

The reply admits these errors but states improvements have been made in the procedure of fiscal year-end adjustments beginning with the preparation of the June 30, 1945, balance sheet. (The 1945 procedures have not been reviewed; therefore, no opinion may be expressed as to whether or not improvement actually has been made.)

37. A number of items were involved in the \$66,000,000 adjustment of the Comptroller General. The bookkeeping with respect to a \$2,324,285 item (included in the \$66,812,880.50) is summarized in order to portray one type of error made and to illustrate the use of suspense accounts where such use does not appear to be essential.

The item was originally recorded as follows:

165.2	Accounts receivable	-----	\$2, 324, 285	
	093. Suspense	-----		\$2, 324, 285

To set up billing to the Navy Department (by increasing accounts receivable and placing an equivalent amount in suspense).

At the time the cash was received the following entry was made:

101.	Cash	-----	\$2, 324, 285	
	566. Working Fund Reserve—Navy	-----		\$2, 324, 285

To record receipt of cash from Navy (by increasing cash with a corresponding credit to the Navy Working Fund Reserve).

Since the bookkeeping record was incomplete at this point, the Commission attempted to correctly show the item on the balance sheet and for this purpose made the following accounts distribution journal entry. (As stated above, accounts distribution journal entries were not posted to the books.)

093.	Suspense	-----	\$2, 324, 285	
	566. Working fund reserve—Navy	-----		\$2, 324, 285

It should be noted that the foregoing entry did not result in a correct statement for balance-sheet purposes, but resulted in the following presentation:

Cash	-----	\$2, 324, 285	
Accounts receivable	-----	2, 324, 285	
Working fund reserve—Navy	-----		\$4, 648, 570



Since, obviously, the account receivable did not exist and the Navy working fund was overstated, representatives of the Comptroller General correctly adjusted the accounts as follows:

566. Working fund reserve—Navy .....	\$2, 324, 285	
165.2. Accounts receivable .....		\$2, 324, 285

To correct duplicate posting to account 566 and to remove open debit to account 165.2.

#### MARITIME COMMISSION

“5. Erroneous billing to the Navy Department in the amount of \$3,186,342 for a vessel transferred to War Shipping Administration.”

#### 37. Summary of reply:

This item concerned the steamship *Tracker*, and the entry under criticism was correctly adjusted in the Commission's financial statements for the fiscal years 1944 and 1945.

#### 38. Comment and opinion:

This item is discussed in further detail in connection with Maritime Commission error No. 17. It is noted that the reply does not state the steamship *Tracker* was under the control of the War Shipping Administration at June 30, 1943. This apparently was the case. It appears that the Comptroller General was correct in his adjustment, and it further appears from available information that the records of the Maritime Commission were not corrected until after the error had been called to the attention of Maritime Commission employees by representatives of the Comptroller General.

#### MARITIME COMMISSION

“6. Billing to the Navy Department in the amount of \$1,480,000 properly includible in 1944 transactions.”

#### 39. Reply:

“This item concerned concrete barge *No. 1* constructed by the Concrete Ship Constructors, contract MCc-1879, and according to the Commission's published progress report showed delivery to the Navy Department on April 13, 1943. Accordingly, the entry on the books correctly reflected the known conditions for fiscal 1943. Again, subsequent information disclosed that the vessel had actually been delivered to the War Shipping Administration during fiscal 1943 and was later returned to the Maritime Commission on July 22, 1943 (fiscal 1944), at which time it was delivered to the Navy Department. This may be an example of the noted ‘gap between recorded fact and actual fact’ but the recorded fact, according to official sources in fiscal 1943, was at variance with the actual fact not made known to the accountants until fiscal 1944. The record shows, but the audit report does not state, that under date of June 26, 1944, this item was billed to the Navy Department and at that point its accounting phases were in audited peace.”

#### 40. Comment and opinion:

This item concerns concrete barge *No. 1* which is mentioned further in connection with Maritime Commission error No. 17. Although the

Commission's published progress report showed delivery of concrete barge *No. 1* to the Navy Department on April 13, 1943, the reply states that "Subsequent information disclosed that the vessel had actually been delivered to the War Shipping Administration during fiscal 1943 and was later returned to the Maritime Commission on July 22, 1943 (fiscal 1944), at which time it was delivered to the Navy Department."

41. The fact that concrete barge *No. 1* was delivered by the Maritime Commission to the War Shipping Administration during fiscal year 1943 and the Maritime Commission did not know it, is indicative of slow transmission of accounting information to the Budget and Accounts Section and is further illustrative of a lack of coordination accountingwise between the Maritime Commission and the War Shipping Administration.

42. In the reply of the Maritime Commission it is stated that the item was billed to the Navy on June 26, 1944. It is noted that this was more than 11 months after the apparent delivery to the Navy Department on July 22, 1943. Such a delay does not appear to be justified.

#### MARITIME COMMISSION

"7. Erroneous change and correction entry of a collection of \$2,246,726.78 from the American Hoist & Derrick Co., resulting in an overstatement of accounts receivable and an overstatement of prior year earnings in a like amount."

#### 43. Reply:

"On June 8, 1943, the relative collection was received and properly deposited to miscellaneous receipts in the Treasury Department. It was the final payment under the renegotiation of excess profits for fiscal 1943. It was recorded as an account receivable under the admittedly cumbersome system but was erroneously reflected as an item of profit and loss. During fiscal 1944 the whole transaction was properly adjusted on the accounting records. The word 'earnings', applied to Government appropriations, is questionable."

#### 44. Comments and opinion:

The reply admits the error. The method used in recording this transaction is set forth below in order to indicate what was probably meant by "cumbersome system" in the reply. With respect to this item no entry had been made to record the amount receivable until the date on which the cash was apparently received (June 8, 1943) at which time remittance manifest C-43-2129 (see exhibit 2) was used as a basis for the following entries:

101. Available Funds on Deposit—U. S. Treasury	\$2, 246, 726. 78
101. Available funds on deposit—U. S. Treasury	\$2, 246, 726. 78
165.20. Accounts receivable—Suspense	\$2, 246, 726. 78
165.3. Accounts receivable—Miscellaneous debtors	\$2, 246, 726. 78
(American Hoist & Derrick Co. check dated June 3, 1943.)	

By means of an accounts distribution journal voucher the following entry was made for balance sheet purposes:



165.3. Accounts receivable—Miscellaneous debt-	
ors_____	\$2, 246, 726. 78
090. Accountings for prior years—	
Fiscal year 1942_____	\$2, 246, 726. 78

The foregoing had the following effect on the June 30, 1943, financial statements:

Increased accounts receivable by_____	\$2, 246, 726. 78
Increased 1942 "profit"_____	\$2, 246, 726. 78

In order to correct the statements the Comptroller General made the following adjustment, which appears to be correct:

Profit and loss, 1942_____	\$2, 246, 726. 78
Accounts receivable_____	\$2, 246, 726. 78

45. During August 1943 (approximately 2 months after the date of the cash collection) invoice 44-282, labeled for "accounting purposes only", was recorded as follows:

165.3. Accounts receivable—Miscellaneous debt-	
ors_____	\$2, 246, 726. 78
165.20 Accounts Receivable—Suspense_____	\$2, 246, 726. 78
(American Hoist & Derrick Co., renegotiation contract.)	

46. Five photostats are presented as exhibit 2 in order to illustrate some of the basic documents with respect to the foregoing transactions. It should be noted that the remittance manifest (sheet 1 of exhibit 2) was apparently not signed, and it is also noted that the reference appearing thereon (C-43-451) is in error (see sheet 2, exhibit 2). Although it is recognized that the reference error is probably merely an error in typing, it is such errors which make difficult the tracing of transactions through the books.

#### MARITIME COMMISSION

"8. Failure to reclassify 'completed small craft' resulting in an understatement of completed construction and an overstatement of 'deferred charges and prepaid expenses'."

"13. Failure to record liabilities of \$1,123,664.42 relating to the small craft program resulting in an understatement of both assets and liabilities."

(These two errors are combined because they concern two aspects of the same problem and because only one reply is made by the Maritime Commission to both items.)

#### 47. Reply:

"This was identified in the defense aid program and here we have another cause for accounting imperfection not readily chargeable to any person or function. There was secrecy concerning the movement and allocation of small vessels. This information being the basis for reclassification, and necessary for proper distribution of construction cost, was not available. Accordingly, the construction costs and their disposition as to small craft as such was deferred until the information necessary for the proper distribution of the item was available."

#### 48. Comments and opinion:

In its reply the Maritime Commission apparently does not question the validity of the adjustments as made by the Comptroller General



but does indicate that necessary information with respect to the reclassification of "completed small craft" was not available. So far as can be determined necessary information was available months prior to the release of the financial statements, and was distributed to appropriate officials of the Commission, including the Director of Finance.<sup>5</sup>

49. In our opinion this error resulted from carelessness in the preparation of the June 30, 1943, financial statements. This opinion is substantiated by the fact that had the same procedure been followed in connection with small craft as was followed in adjusting the book figures with respect to large vessels, this error apparently would not have appeared in the financial statements.

#### MARITIME COMMISSION

"9. Classification of \$1,019,483 as 'deferred credit' when it actually represented a potential account payable to the American Mail Line, Ltd., for prepaid construction of new ships."

"11. Classification of \$3,877,186.22 as 'deferred credit' when it actually represented a potential account payable for prepaid construction of new ships."

(These two errors, being similar, are combined.)

#### 50. Reply to item 9:

"In this the Comptroller General is in error—by law. Section 510.2 (b) of the 1936 act authorized the Commission to acquire any obsolete vessel in exchange for an allowance of credit. Such allowance to be determined at the time the owner contracts for the construction or purchase of a new vessel. *'The allowance shall not be paid to the owner of the obsolete vessel but shall be applied upon the purchase price of a new vessel.'* This item was correctly in a deferred credit account because it could not be paid to the owner of the obsolete vessel in any event and, specifically in the law, could only be credited to the purchase price of a new vessel."

#### 51. Reply to item 11:

"The General Accounting Office criticism is not correct. This is another transaction under section 510.2 (b) of the 1936 act governing the disposition of trade-in values of old vessels to be applied on the purchase price of new vessels. This item is not a potential account payable, but is a deferred credit to new construction as originally recorded."

#### 52. Comments:

The controversy regarding these items seems to be principally one of terminology and classification for balance sheet purposes. The Comptroller General refers to the items as "potential accounts payable" and the reply insists that the items are "deferred credits" (or as stated in the reply to error No. 11, "deferred credits to new construction").

53. The question at issue seems to be partially dependent upon the interpretation to be placed upon section 510.2 (b) of the Merchant

<sup>5</sup> The necessary information was contained in schedule 5-c, sheet 3, of United States Maritime Commission financial statement (partly estimated), fiscal year 1943, which was transmitted by letter dated December 4, 1943, by R. E. Anderson, Director of Finance to Chairman Land and other Commissioners. The copy examined indicated that, among others, the following were furnished copies: Mr. Prowse, Secretary Williams, Mr. Harford, executive director, director of finance, Chief, Budget and Accounts Section; Mr. Buchholz, Mr. Keene, Bureau of the Budget (Mr. A. J. Horn), and assistant director of finance (Operations).



Marine Act, 1936. The reply of the Maritime Commission quotes part of this section. The representatives of the Comptroller General who were concerned with the 1943 audit apparently relied upon the last sentence of this section which states: "In case the new vessel is not constructed under the provisions of this act, the allowance shall, upon transfer of the obsolete vessel to the Commission, be paid, for the account of the owner, to the shipbuilder constructing such new vessel."

54. It is believed that the term "deferred credits" generally refers to either income recorded during a fiscal period but applicable to a future period or periods, or to an item such as unamortized premium on bonds considered as a reduction in the interest expense of future periods. Under the circumstances the treatment as a deferred credit is at least questionable.

#### MARITIME COMMISSION

"10. Failure to credit 'ship construction' with \$278,624.53 shown as 'deferred credits' but identified as inventories turned over to operators of newly constructed vessels."

55. Reply:

"The last two figures in the amount above have been transposed in the audit report. This is a valid criticism but does not state that the Commission's accounts had been adjusted properly to reflect the facts, namely, as a credit to ship construction."

56. Comments and opinion:

According to the audit report as published in the Congressional Record, the Maritime Commission reply is correct with respect to the transposition of the last two figures, amounting to 18 cents. (Elsewhere in the audit report the subject amount was correctly stated.) It is noted that otherwise the Commission does not question the adjustment.

57. This item involves inventories on 50 newly constructed vessels, which inventories ranged from \$4,145.56 to \$9,919.82 (total \$278,624.53). Under a reasonable system of inventory control it would appear that these items should have been recorded at the time of transfer. In the instant case, however, the subject amount was not recorded on the books as of June 30, 1943, but was brought into the financial statements by means of balance sheet journal vouchers Nos. 4 and 6. The explanation to balance sheet journal voucher No. 6 was: "To record for balance sheet purposes inventories on board newly constructed vessels transferred to WSA and delivered to operators under "General agency agreements." These inventories have been charged to the various general operators on the books of WSA through account No. 094."

#### MARITIME COMMISSION

"12. Failure to record \$2,663,186.22 of inventory actually on hand in Commission's own warehouse at Emeryville, Calif."

58. Reply:

"This is a prime example of information not available and the disorder surrounding the construction of ships without regard to

cost. It was not until fiscal 1944 that this warehouse was known to be a Commission warehouse. Prior to that time it was a storage yard for construction material included in the cost of ship construction by contractors at various west coast shipyards and so recorded on *their* books. When, in fiscal 1944, this property became an official Commission warehouse, an inventory of these materials was taken and subsequently recorded on the books in Washington. There is room for doubt that the inventory so recorded was relieved in relative cost at the various shipyards involved and it may be duplication, not mentioned in the audit report."

59. Comments and opinion:

So far as can be determined the subject warehouse was discovered during a survey trip by representatives of the Comptroller General made during June 1944 for the purpose of investigating the actual existence of warehouse inventories. Apparently, there was no record of this warehouse in the Washington records of the Commission at the time of the trip.

60. With respect to the statement in the reply that this property became an official Commission warehouse in fiscal 1944, attention is invited to exhibit 3, which is a copy of a letter dated November 2, 1944, from C. W. Flesher, Director of the United States Maritime Commission regional construction office, Oakland, Calif., which states that "The USMC Emeryville warehouse was acquired for this distinct purpose and the first material was received on June 30, 1942."

MARITIME COMMISSION

"14. Failure to record liabilities of \$5,272,100.10 representing a judgment by the Supreme Court in favor of the Bethlehem Shipbuilding Corp., Ltd., resulting in an understatement of accounts payable and overstatement of the capital account of a like amount."

61. Excerpts from reply:

"First, the 'capital account' applies to appropriations that were specifically not available. On April 1, 1942, the Supreme Court affirmed a lower court judgment in favor of the above company. The question raised in the audit report was our failure to record a liability upon the judgment of the Supreme Court. The answer is whether a liability can be set up against public money before it is appropriated. To do so would be the anticipation of the will of Congress."

62. Comments and opinion:

This statement seems to be incorrect, based upon page 1 of "General comments," United States Maritime Commission statement of assets and liabilities as at June 30, 1943: "During the period July 1, 1942, to June 30, 1943, direct appropriations in the amount of \$4,985,367,-615.10 were made to the United States Maritime Commission for the furtherance of its functions and related activities. Of this amount, \$980,080,000 was appropriated under the Independent Offices Appropriation Act of 1943, approved June 27, 1942. The First Deficiency Appropriation Act of 1943, approved March 18, 1943, appropriated



the sum of \$4,000,000,000 and an additional sum of \$5,287,640.10 to pay judgments decreed by the United States courts against the Government of the United States in favor of the Bethlehem Shipbuilding Corp., Ltd. \* \* \* The judgments of the Bethlehem Shipbuilding Corp., Ltd., were paid by certificates of settlement issued by the General Accounting Office. These payments were made on April 17, 1943, July 3, 1943, and July 8, 1943, in the amounts of \$15,540, \$25, and \$5,272,075.10, respectively."

63. From the foregoing quotation it is apparent that the employee or official who *actually* prepared the reply of the Commission had not read the general comments attached to the Commission's financial statements as released. The discussion with respect to "anticipation of the will of Congress" appears irrelevant since the appropriation had already been made.

64. It is noted that the reply also attempted to justify the Commission's treatment by stating the fact that the Bethlehem Steel Corp. did not set up the receivable in its 1942 statements. This appears to be a reasonable procedure, since, as quoted above, the appropriation was not approved until March 18, 1943.

#### MARITIME COMMISSION

"15. Reduction of book value of Hoboken terminal to nominal amount of \$1 without official Commission action when records reflect adjusted cost of acquisition to be \$7,098,203.00."

65. Excerpts from reply:

This item is "still in bookkeeping conflict." The subject terminal was carried at a value of \$1 in the balance sheet of the Commission as of June 30, 1937,<sup>6</sup> as prepared by "nationally known certified public accountants."

66. Comments and opinion:

It is considered significant that the Hoboken terminal has been set up on the balance sheets of the Maritime Commission as at June 30, 1944, and June 30, 1945, at the \$7,098,203 figure. This fact indicates that, despite the reply made, the Commission apparently does not object too strongly to the adjustment made by the Comptroller General in connection with the June 30, 1943, audit report.

67. Although not pertinent to the June 30, 1943, statement where the terminal was carried at \$1, two observations may be made with respect to the showing of the 1944 and 1945 statements: (a) Since it appears to be the policy of the Commission to record depreciation, it is considered that such a reserve should have been provided with respect to this terminal on its balance sheets. Available information indicates that the Comptroller General attempted to provide such a

<sup>6</sup> Schedule A-6-1 (terminals and fuel station as at June 30, 1936) of the U. S. Shipping Board Bureau and U. S. Shipping Board Merchant Fleet Corporation lists the Hoboken terminal at a cost of \$7,098,203, with no reserve for depreciation, leaving a net book value of \$7,098,203.

Apparently on April 30, 1938, Mr. D. F. Houlihan, Director, Division of Finance, U. S. Maritime Commission, forwarded the 1937 balance sheet and income and expense statement to the U. S. Maritime Commission with the following comments to support schedule A-8:

"Terminals, at nominal value:

"Nominal values of \$1 each are stated for the five terminals either owned or operated by the Commission. With the exception of the Hoboken terminal, the books of the Commission record the value as \$1 each. In the case of the Hoboken terminal, the value at present is recorded as \$7,098,203, to which, for balance-sheet purposes, a reserve of \$7,098,202 is applied, resulting in the nominal value of \$1.

"The terminal properties located at Boston, Brooklyn, and Philadelphia are operated by the Commission on permit from the War Department, while the properties at Hoboken and Norfolk are owned and operated wholly by the Commission. In the absence of an appraised value, the nominal value of \$1 each is applied."

reserve for depreciation when preparing the 1943 audit report but was unable to locate any detailed information upon which to intelligently estimate an appropriate amount for such reserve. (b) Since part of the Hoboken terminal facilities were destroyed by fire on August 12, 1944, it would appear that the figure used on the June 30, 1945, statement should not only have been reduced by appropriate provision for depreciation but also should have been reduced by an amount to reflect the loss in value resulting from the fire.<sup>7</sup>

## MARITIME COMMISSION

"16. Duplication of change and correction entries resulting in an overstatement of interest receivable in the amount of \$644,871.95."

## 68. Reply:

"The General Accounting Office is correct in this criticism but failed to state that in the first month of the following year, July 1943, the proper adjustment was made—before the audit."

## 69. Comments and opinion:

Exhibit B of the Maritime Commission's statement of assets and liabilities, etc., as at June 30, 1943, shows interest earned of \$4,881,987.38. This amount consists of the following items:

Net interest earned recorded on the books in account 675---	\$3, 494, 037. 78	
Year end adjustments:		
Accounts distribution-----	\$454, 573. 77	
Balance sheet journal vouchers-----	794, 891. 76	
		1, 249, 465. 53
Interest and commitment fee revenue, account 676-----		138, 484. 07
		<hr/>
Total per published statement-----		4, 881, 987. 38
Erroneous adjustments were deducted as follows by Comptroller General:		
Interest on notes receivable-----	\$604, 326. 36	
Interest on construction progress payments-----	40, 545. 59	
		<hr/>
		644, 871. 95
Computation of actual interest earned-----		<hr/>
		4, 237, 115. 43

70. The balance sheet journal vouchers to adjust the books to the balance sheet figures were prepared by the Commission on the following dates:

	Debit	Credit
BSJV No. 14, prepared Dec. 27, 1943 (in pencil)-----		\$711, 989. 02
BSJV No. 21, prepared Jan. 26, 1944-----	\$328, 111. 66	
BSJV No. 24, prepared Jan. 28, 1944 (in pencil)-----		411, 014. 40
		<hr/>
		1, 123, 003. 42
		328, 111. 66
		<hr/>
Net amount of balance sheet journal vouchers (as above)----		794, 891. 76

Since the major portion of the duplication was included in the \$794,891.76 adjustment, and since these balance sheet journal vouchers were not prepared until December 1943 and January 1944, it seems that the correction of the erroneous figures in the above balance sheet journal vouchers could not have been prepared "in the first month of

<sup>7</sup> A newspaper report written on the day of the fire indicated a loss of \$4,000,000.



the following year, July 1943—before audit” as stated by the Maritime Commission reply.

## MARITIME COMMISSION

“17. Failure to include \$3,955,000 of vessels transferred to other agencies in the adjustment of capital for such transfers.”

## 71. Reply:

“The explanation under this head is similar to that under items 5 and 6 above. The information necessary for proper final accounting was not known. No capital was involved.”

## 72. Comments and opinion:

As stated in the reply this item is one aspect of the errors commented upon in connection with items 5 and 6, as follows:

Error No. 5—S. S. <i>Tracker</i> -----	\$3, 186, 342
Less: Excess of construction costs over working funds provided_	711, 342
	<hr/>
	2, 475, 000
Error No. 6—Concrete barge <i>No. 1</i> (not controlled by Navy Department as at June 30, 1943)-----	1, 480, 000
	<hr/>
Error No. 17, as above-----	3, 955, 000

73. So far as can be determined from a quick review, the facts with respect to the steamship *Tracker* are as follows: On January 27, 1943, the Navy Department was billed for \$2,475,000 to cover the transfer of the steamship *Tracker* to the Navy Department. However, title did not pass to the Navy Department; in fact, at June 30, 1943, the steamship *Tracker* was under control of the War Shipping Administration. Accordingly, the vessel should have been included in the control account relating to vessels transferred to the War Shipping Administration rather than presented as a receivable item from the Navy. In billing the Navy Department for the steamship *Tracker* (see exhibit 4), accounts receivable were increased with a corresponding entry to a suspense account. At June 30, 1943, for statement purposes, the \$2,475,000 in the suspense account was transferred erroneously by the Commission from the suspense account to the working fund reserve account (as an increase). Since the title to this vessel had not passed to the Navy Department, the inclusion of the \$2,475,000 in the balance of accounts receivable from the Navy was erroneous (and the inclusion of \$2,475,000 in the working fund reserve balance was similarly in error). Examination of the accounts subsequent to June 30, 1943, indicates that the \$2,475,000 has been correctly adjusted.

74. With respect to the statement in the reply that “The information necessary for proper final accounting was not known,” attention is invited to exhibit 4 (credit memorandum No. C44-378, dated August 18, 1943), which indicates that as of August 1943 (approximately 7 months prior to the release of the Commission’s financial statements) it was apparently known that the steamship *Tracker* was not to be transferred to the Navy. Furthermore, confidential report No. 190-92, part one, “Vessels under the control of War Shipping Administration,” issued by the Charters and Agencies Section, Division of Operations, War Shipping Administration, based on information received through November 15, 1943, lists on page 165 the steamship



*Tracker* as having been delivered to British registry under date of January 31, 1943.

75. In connection with the credit memorandum (exhibit 4) mentioned in the foregoing paragraph, it should be noted that the only signature appearing thereon is that of "Jack Haney," who, according to the Personnel Section of the Commission, had a classification of CAF-8 at the time the credit memorandum was prepared. The practice of allowing an employee to write off an account receivable in excess of \$2,000,000 without further approval by a responsible official is a practice which most businesses would condemn.

#### MARITIME COMMISSION

"18. Improper charging to ship construction costs of advance payments totaling \$1,150,483.41 to the Worthington Pump & Machinery Corp. instead of accounts receivable."

#### 76. Reply:

"In accordance with the terms of contract No. MCc-3182 with the Worthington Pump & Machinery Corp. progress payments 1 and 2 were made in the amounts of \$641,533.50 and \$508,949.91 and properly charged to our construction cost accounts. These payments occurred in December 1942 and January 1943 (fiscal 1943), respectively. On February 20, 1943, to be noted as 1 month after the payments were made, addendum No. 10 to the contract was issued which provided for the refunds of the moneys paid under progress payments 1 and 2. Accordingly, the payments were refunded to the vendor prior to June 30, 1943, that is to say, in May and June, respectively. The General Accounting Office is wrong."

#### 77. Comments and opinion:

The facts with respect to the transaction are apparently as follows: Payments of \$1,150,483.41 were made to the Worthington Pump & Machinery Corp. under a purchase order which was issued as a pool order covering 260 turbo-generator units against which cancellations were to be made as individual orders were received from private shipyards or from the Maritime Commission. The vendor advised the Commission on January 30, 1943, that the pool order should be canceled inasmuch as firm orders had been received from shipbuilders for all of the units involved. The pool order was canceled by an addendum made as of February 20, 1943. At this time, if not before, it appears that the amount previously paid out under the purchase order should have been set up in the accounts as a receivable by the Maritime Commission. This, however, was not done. When the checks were received from the vendor (prior to June 30, 1943) the amounts were recorded as accounts receivable as a "wash" transaction, i. e., charged to and deducted from accounts receivable simultaneously.

78. The Maritime Commission reply, particularly where it is stated that "The General Accounting Office is wrong," apparently assumes that the subject item resulted in an adjustment to the June 30, 1943, financial statements. Had the audit report been carefully analyzed it would have been seen that the Comptroller General did not make an adjustment with respect to this item. According to representatives of the Comptroller General this matter was presented as a



major error of omission or commission in support of the second recommendation in the audit report—"That advances should be recorded as receivables." (The statement in the reply that "the payments were refunded to the vendor" apparently is in error, since the payments were actually refunded to the Commission.)

## MARITIME COMMISSION

"19. The over-all control of payments to shipbuilding contractors is not maintained in the accounts and the effectiveness of the internal audit can only be determined by test and sampling methods or a complete duplication of the audit processes."

## 79. Reply:

The Commission reply is a lengthy and general statement which does not specifically confirm or deny the criticism of the Comptroller General.

## 80. Comments and opinion:

It is considered that many of the preceding comments indicate in a general way the validity of this contention by the Comptroller General. One further illustration is presented: Contract MCc-2047, with Kaiser-Vancouver, was suspended by addendum No. 3 on June 18, 1942, and was formally canceled by Commission action on February 17, 1944. However the Commission's construction accounts showed the following amounts in August 1944:

	<i>Vessels under construction MCc-2047</i>
Balance, June 30, 1943.....	\$12, 499, 996. 49
Balance, June 30, 1944.....	16, 219, 138. 17
Balance, July 31, 1944.....	16, 224, 991. 48

Thus it is noted that costs continued to accumulate on the books of the Commission months after the contract was suspended. Apparently only two Liberty cargo vessels, estimated cost of \$2,000,000 each, were delivered under this contract: (a) Hull No. 353, delivered July 22, 1942, and (b), hull No. 354 delivered August 8, 1942.

## WAR SHIPPING ADMINISTRATION

"1. Collections of insurance premiums prior to June 30, 1943, in the amount of \$3,084,728.89, were not recorded. Cash was consequently understated and accounts receivable overstated in this amount."

"2. Collateral deposits, \$68,650, pertaining to Warshipopen-cargo insurance policies were received prior to June 30, 1943, but were not recorded. Cash and accounts payable were thereby understated."

## 81. Summary of reply:

The reply to error No. 1 states that "the adjustment made by the Comptroller General's auditors is technically correct, although such collections were not actually reported by Albert Wilcox & Co., Inc., until after June 30, 1943, and were properly recorded, in the books of account, prior to receipt of the Comptroller General's report." The reply to error No. 2 states that "this item is in the same category as '1' above."

## 82. Comments and opinion:

Although the foregoing statement is correct, it would appear that these errors in the War Shipping Administration financial statements as of June 30, 1943 (transmitted April 15, 1944), would have been avoided had the war risk insurance fund cash balances been reconciled prior to the release of the statements. The importance of reconciling cash balances has been discussed in paragraphs 10, 11, and 12 of this preliminary report (also see exhibit 1). As set forth in paragraph 11 the statement in the published report of the War Shipping Administration to the effect that the balances of all appropriations and working funds have been reconciled with the Treasury balances, appears to be a misstatement of fact.

## WAR SHIPPING ADMINISTRATION

"3. Unrecorded checks on hand or in transit at June 30, 1943, in the amount of \$300,862.96, resulted in an overstatement of accounts receivable, \$234,842.65, and understatement of the reserve for war-risk insurance, \$66,020.31."

## 83. Excerpts from reply:

The reply does not question the validity of the adjustment made by the Comptroller General. It states however, that "the referred to unrecorded checks on hand were, in reality, certificates of deposit covering deposits made at various Federal Reserve banks."

## 84. Comment:

An examination of the available records with respect to a few of the subject items indicates that they were actually "checks" rather than "certificates of deposit." One of the records reviewed was "Schedule of collections, standard Form No. 1044—Revised, schedule No. WRI-44-3." All of the checks on this schedule apparently were received during June 1943 and were deposited with the Treasury Department on July 10, 1943 (certificate of deposit No. 1328).

## WAR SHIPPING ADMINISTRATION

"4. An incomplete transfer of cash, \$956,128.20, from Navy working funds to the War Shipping Administration revolving fund resulted in an understatement of cash and accounts payable."

## 85. Reply:

"We are not in accord with the foregoing adjustment made by the Comptroller General's auditors inasmuch as it is contrary to our established procedure for recording receipts and disbursements. Under our procedure, standard Forms 1064, 'Schedule of disbursements'; 1081, 'Schedule of adjustments'; and 1044, 'Schedule of collections,' are used for the posting of receipts and disbursements prior to actual accomplishment by the chief disbursing officer, Division of Disbursement, United States Treasury Department.

"The adjustment in question involves our schedule of adjustments No. WSA-8494, dated June 26, 1943, to which was attached our voucher (standard Form 1080), in the amount of \$956,128.20



reimbursing the War Shipping Administration's revolving fund from 11X3905.001, "Working fund, executive, emergency management," in the amount of \$953,775.33, and 1135915.001, "Working fund, executive, War Shipping Administration, 1943," in the amount of \$2,352.87. The referred to Form 1080 was actually paid by the chief disbursing officer on July 5, 1943, by check No. 5900. The Comptroller General's auditors, in effecting this adjustment, apparently contend that the disbursement should have been recorded during the month of July rather than in the month of June 1943. We do not subscribe to their theory in this connection."

#### 86. Comments and opinion:

As indicated in the reply the transaction which gave rise to the subject adjustment involves a transfer of cash out of one fund into another. In order to correctly state the cash on the consolidated statement of the War Shipping Administration it would have been necessary, of course, to treat the transaction as a simultaneous cash disbursement from one fund and a cash receipt into the other fund. However, the War Shipping Administration did not do this but, instead, recorded the disbursement as a transaction of the fiscal year ended June 30, 1943, and recorded the receipt as a transaction of the fiscal year ended June 30, 1944. Although there may be a legitimate difference of opinion as to whether this is properly a transaction of fiscal 1943 or of fiscal 1944,<sup>8</sup> it is apparent that in order to correctly show the cash on the June 30, 1943, statements it was necessary either to treat the disbursement as a transaction of fiscal 1944 or to pick up the receipt as a transaction of fiscal 1943. Therefore the adjustment made by the Comptroller General appears to be appropriate.

#### WAR SHIPPING ADMINISTRATION

"5. Included as a reduction of accounts receivable, Navy Department, at June 30, 1943, was the amount of \$1,200,000 representing a collection from the Navy Department to cover the purchase of the steamship *President Madison*, an official of the accounting department stated that the vessel will not be purchased for the Navy Department, and the collection is to be refunded. The credit balance of \$1,200,000 was therefore transferred as an increase to accounts payable."

#### 87. Summary of reply:

The reply sets forth complete details concerning this transaction and the accounting procedures followed in respect thereto. The reply concludes by stating that "based upon the foregoing, it follows that the published statement of assets and liabilities of the War Shipping Administration as at June 30, 1943, was correct with respect to the acquisition and sale of the steamship *President Madison* to the United States Navy Department and that, therefore, the Comptroller General's adjustment of \$1,200,000 is erroneous."

<sup>8</sup> The disbursement voucher for adjustments between appropriations and/or funds (Form 1080) No. 2234 was certified for payment on June 25, 1943 (fiscal 1943), but apparently was not paid by the chief disbursing officer until July 5, 1943 (fiscal 1944).



## 88. Comment and opinion:

The reply has been reviewed and, so far as can be determined, the statements made therein are correct. Accordingly, it is considered that the Comptroller General was in error in effecting the subject adjustment.

## WAR SHIPPING ADMINISTRATION

"6. Erroneous charges to the reserve for war-risk insurance, \$4,983,394, and vessels lost in operation, \$1,284,706, which pertain to the steamship *Wakefield* (ex-*Manhattan*). These amounts are recoverable from the Navy Department under agreements in effect at June 30, 1943."

## 89. Excerpts from reply:

The reply sets forth the details with respect to the subject adjustment and states that "since these documents clearly indicate that the Navy Department was liable only for the residual value of the hull, it follows that the Comptroller General's adjustment, which increased the accounts receivable against the Navy to a total of \$10,000,000 was erroneous, irrespective of the terms of the subcharter. We maintain, therefore, that our treatment of this transaction in the June 30, 1943, statement of assets and liabilities of the War Shipping Administration was correct in that the receivable of \$3,731,900, set up against the Navy for the residual value of the hull, was in accordance with the referred to letter of January 4, 1944, from the budget officer to the Chief, Bureau of Ships, and that the charge of \$4,983,394 against the war-risk-insurance reserve was in accordance with recommendation 2 of referred to Administrator's action of October 9, 1942."

## 90. Comments and opinion:

The facts in this case are apparently as follows: (a) The War Shipping Administration chartered the subject vessel from the owner and agreed to assume all insurance risks; (b) the vessel was not insured by the War Shipping Administration against war risk or marine perils; (c) the Navy Department subchartered the vessel from the War Shipping Administration and assumed all liabilities for possible loss of the vessels; (d) the subject vessel was a constructive total loss while in the service of the Navy; (e) the Bureau of the Budget ruled "that funds will not be made available to the Navy for this reimbursement; but that the Navy will be authorized to take over the vessel where is, as is, and to pay the War Shipping Administration the amount of the residual value"; and (f), the War Shipping Administration in its 1943 financial statement charged \$4,983,394 of the loss to the war risk insurance reserve.

91. Although the War Shipping Administration charge of \$4,983,394 against the war risk insurance reserve appears improper (since the Navy assumed all risks and since the vessel was not insured by the War Shipping Administration against war risk or marine perils), it is considered that the proper treatment of the subject item is dependent upon a legal decision as to whether or not the afore-mentioned ruling of the Bureau of the Budget supersedes the bareboat subcharter agreement (contract MCc-1671) with the Navy.



92. At the date of preparation of the June 30, 1943, War Shipping Administration balance sheet the situation was apparently as follows: (a) The Navy had admitted its obligation to pay the \$10,000,000; however (b), the Bureau of the Budget had declined to make funds available to the Navy for making the full \$10,000,000 payment to the War Shipping Administration but, instead, had authorized only the payment of an amount equivalent to the residual value of the hull (approximately \$4,000,000). In the absence of a legal opinion, it is considered that possibly the proper treatment would have been to set up an accounts receivable of \$10,000,000 with an offsetting reserve of approximately \$6,000,000.

#### WAR SHIPPING ADMINISTRATION

“7. Erroneous payments for charter hire aggregated more than \$844,000.”

#### 93. Reply:

In the reply the War Shipping Administration presents detailed information concerning the subject adjustment but apparently does not contest the corrections made by the Comptroller General. It is noted in the reply, however, that the charter hire applicable to *M/S J. H. Senior* (Panama Transport Co.) in the amount of \$10,491.37 is stated to represent “an overaccrual of charter hire rather than an overpayment of charter hire.”

#### 94. Comments and opinion:

Although small in amount, the charter hire with respect to the *M/S J. H. Senior* was reviewed in order to determine the accounting treatment given it by the War Shipping Administration and in order to determine whether or not an overpayment was involved. On its June 30, 1943, balance sheet the War Shipping Administration included \$199,800 in accounts payable to cover charter hire on this vessel. The amount was apparently arrived at as follows:

Charter hire for the year ended June 30, 1943, was estimated at_____	\$797, 454. 43
The preclosing trial balance as of June 30, 1943, of account 705.1 (charter hire expense) indicated that payments had actually been made in the amount of_____	597, 654. 43

War Shipping Administration accrual (BSJV No. 4)_____	199, 800. 00
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95. In the foregoing calculation proper consideration was not given to the following facts:

(a) Voucher No. NY-43-21345 in the amount of \$66,006, covering charter hire for the month of April 1943, had been paid and debited to account 439 (audited vouchers payable). (A review of the Comptroller General's audit working papers indicated that charter hire in the amount of \$3,875,056.79 was debited to this account.)

(b) Voucher No. 43-23539 in the amount of \$66,600, covering charter hire for the month of May 1943, had been paid and debited to account 1,000 (undistributed expenditures). (Account 1,000 was opened in May 1943 and by June 30, 1943, along with other items, charter-hire expense in the amount of \$21,859,845.01 had been charged to it.)

(c) There was off-hire applicable to this vessel in the amount of \$77,091.37.

96. Had the facts set forth in the foregoing paragraph been taken into consideration by the War Shipping Administration, the calculation of the amount payable or receivable with respect to charter hire on this vessel would have been correctly made as follows:

Estimated amount payable as in par. 94	\$797,454. 43
Less: Off-hire as in par. 95 (c)	77, 091. 37
<hr/>	
Adjusted total amount payable for year	\$720, 363. 06
Amounts paid during year:	
Charged to charter hire expense as in par. 94	\$597, 654. 43
Charged to audited vouchers payable as in par. 95 (a)	66, 600. 00
Charged to undistributed expenditures as in par. 95 (b)	66, 600. 00
<hr/>	
Total payments for the year	730, 854. 43
<hr/>	
Actual overpayment of charter hire on M/S <i>J. H. Senior</i> as at June 30, 1943	10, 491. 37

97. A review of the Comptroller General's audit working papers indicates that oversights of this nature by the War Shipping Administration resulted in the overaccrual of \$46,104,206.62 in charter hire expense on some vessels, and the underaccrual of \$23,089,060.75 on others (a net overaccrual of \$23,015,145.87). Accordingly, both accounts payable and charter hire expense were overstated by approximately \$23,000,000.

98. It is noted that the War Shipping Administration reply in one place states that: "Since off-hire, as referred to above, is based upon occurrences not immediately determinable, we do not consider these alleged overpayments erroneous." With representatives in all principal ports of the world, it would appear that such information was available to these representatives even though it may not have been promptly available to accounting personnel. The inadequacy of the procedures with respect to the prompt reporting of accounting information has been commented upon at length elsewhere in this preliminary report.

#### WAR SHIPPING ADMINISTRATION

"8. Failure to record completely the recapture of excess profits on repair and conversion contracts resulting in an understatement of accounts receivable \$1,110,749.98, and overstatement of deferred credits, \$1,477,258.02, and deficit, \$2,588,008."

99. Excerpts from reply:

The reply concurs in the correctness of the Comptroller General's adjustments. Reference is made to a letter dated June 24, 1942 from the Bethlehem Steel Co. which contains the following statement: "Accordingly, at a conference held in your office on June 12, 1942, this company (is) prepared to refund the amount of \$2,588,008 referred to above." Further reference is made to an extract from a letter dated June 30, 1942, from the Director of Finance, United States Maritime Commission to the Bethlehem Steel Co. in which it is stated: "The plan as set forth in your letter is acceptable, and the cooperation of your company in making this voluntary adjustment is appreciated."



## 100. Comments and opinion:

So far as can be determined this receivable was not recorded in the books of the War Shipping Administration. During the fiscal year ended June 30, 1943, amounts totaling \$1,477,258.02 were collected by making deductions from other amounts payable to the Bethlehem Steel Co. by the War Shipping Administration. The sum so deducted was shown on the June 30, 1943, statements as "Undistributed refunds" under the general caption of deferred credits. It is noted that a year after the \$2,588,008 receivable had been approved by the Director of Finance, the amount had not yet been set up as an account receivable on the books. Furthermore, as stated above, the amount which had been actually collected as of June 30, 1943, was incorrectly presented in the financial statements. The adjustments made by the Comptroller General were necessary in order to present the facts on the statements correctly.

101. Exhibit 5 sets forth a detailed procedure which was established for the purpose of accounting for the payments made by the Bethlehem Steel Co. through voucher deductions. The procedure appears to be much more complicated than is warranted by the relatively simple bookkeeping problem involved. The matter was discussed with those who prepared the procedures, and the discussion indicated a lack of comprehension of the fact that an accounts receivable should have been set up on the books and that the problem of crediting appropriations for the collections as made could have been handled easily on the face of public vouchers (Form 1034).

## WAR SHIPPING ADMINISTRATION

"9. Warshipopencargo insurance premiums aggregating \$617,502.38 were unrecorded at June 30, 1943."

## 102. Reply:

"Our investigation of this adjustment disclosed the fact that the entire amount of \$617,502.38 represented collections of Warshipopencargo insurance premiums applicable to the fiscal year ended June 30, 1943, which were reported by Albert Willcox & Co., Inc., clearing agent of the War Shipping Administration, after June 30, 1943. This fact is clearly established by the language of the Comptroller General's adjustment to accounts receivable, which reads:

" 'Additional Warshipopencargo premiums collected in fiscal year 1944 properly applicable to fiscal year 1943.'"

"Inasmuch as we applied these premium collections, in our 1944 accounts, to the fiscal year 1943, we have no objection to the Comptroller General's adjustment, although we do not consider this item an error of omission or commission under the reporting arrangements made with Albert Willcox & Co., Inc., under contract No. WSA-3841, hereinbefore referred to under '1'."

## 103. Comments and opinion:

The representatives of the Comptroller General apparently arrived at the amount of the adjustment by reviewing the reports rendered by Albert Willcox & Co., Inc., available at the time of the audit, and tabulating all premium receipts appearing thereon which applied to



the fiscal year ended June 30, 1943.<sup>9</sup> Although it is recognized that the War Shipping Administration may not have been able to record for statement purposes the entire \$617,502.38 adjusted by the Comptroller General (because a few of the reports from Albert Willcox & Co., Inc., may have been received subsequent to the time of preparation of the War Shipping Administration statements but prior to the time of the audit), it is considered that a major portion (probably over 90 percent) could have been included properly in the June 30, 1943, War Shipping Administration statements if those charged with the preparation of the statements had made use of the available information.

104. From informal discussions with representatives of the Comptroller General it is understood that although substantial amounts of additional premiums (similar to the foregoing) were recognized by the War Shipping Administration in the preparation of the 1943 statements, items of this nature were apparently completely omitted in preparing the 1944 statements. This is considered to indicate carelessness in statement preparation.

#### WAR SHIPPING ADMINISTRATION

"10. Insurance claim payments by agents, \$3,953,533.30, were applied incorrectly as a reduction of the reserve war-risk insurance rather than as contingent receivables."

105. Excerpts from reply:

The War Shipping Administration admits this error in its statement: "Our investigation of this item disclosed the fact that all of the amount involved was reflected in our agents' trial balances, in account 361, claims pending, as at June 30, 1943, and that, as stated in the Comptroller General's report, this sum was applied incorrectly as reduction of the reserve for war-risk insurance rather than as contingent receivables."

106. Comments and opinion:

Balance sheet journal voucher No. WSA-20, prepared March 15, 1944, includes the following adjustment:

Reserve for war-risk insurance—Account 893,	
war-risk insurance claim payments-----	\$3, 953, 533. 30
Clearance account 094, agency operation service	
agreements-----	\$3, 953, 533. 30

To bring into the statement of assets and liabilities ledger accounts on books of general agents as shown by analysis of general agents' trial balances as of June 30, 1943.

(The debit to 893 was later changed in pencil to 363—War-risk insurance claims (pending).)

In effect, the debit above should have been to accounts receivable from hull underwriters, protection and indemnity underwriters and other sources, as this represented claims actually paid by general agents and recoverable from these sources.

107. Since the general agents did not write off the claims pending on their books, it would appear that the interests of the Government

<sup>9</sup> This procedure was reviewed and it was noted, for example, that the "Summary of additional closing reports for the month of June 1943"—report No. 82, sheet No. 3—transmitted under date of October 16, 1943, to the Division of Wartime Insurance, Washington, D. C. (copy to Finance Division), shows premium receipts in the amount of \$138,127.99. This amount is included in the amount of the subject adjustment.



were protected insofar as the agents' records were concerned but, by the above entry, the War Shipping Administration lost control of over \$3,000,000 of such receivables for balance sheet purposes. Accounts receivable and the reserve for war-risk insurance were both understated by this amount on the financial statements as of June 30, 1943.

#### WAR SHIPPING ADMINISTRATION

"11. Failure to record more than \$350,000,000 revenues receivable at June 30, 1943, for the transportation of lend-lease cargoes."

108. Reply:

"As you are aware, the original arrangements between the War Shipping Administration and the Lend-Lease Administration contemplated that billings of the War Shipping Administration for the use of vessels allocated in whole or in part to the carriage of lend-lease cargoes would be rendered on a 'cost basis to be determined.' The impracticability of that arrangement resulted not only in delayed billings but also precluded the use of lend-lease funds allocated to the War Shipping Administration for the purpose of defraying such costs. Accordingly, the original method of billing was abandoned in favor of a procedure which would permit the War Shipping Administration to bill and collect, from lend-lease funds, on a 'freight rate basis' rather than on a 'cost basis.' The issuance of fiscal regulations No. 12 by the War Shipping Administration, under date of June 25, 1943, established the new billing procedure; and since, under the new arrangement, agents were required to retroactively 'rate' all manifests covering lend-lease cargoes carried on War Shipping Administration vessels, it follows that it would have been physically impossible for them to accrue such revenues on the new basis prior to the required time for the submission of their trial balances for the fiscal year ended June 30, 1943. In addition, it is pointed out that all the rates had not been agreed upon and placed in the hands of agents as at June 30, 1943."

109. Comments:

In its reply to the Comptroller General's report the War Shipping Administration does not specifically disagree with the adjustments made by the Comptroller General, but seems to justify the omission of these receivables on the grounds that a workable billing basis for freight on lend-lease cargoes was not established until June 25, 1943 (5 days before the close of the fiscal period), and "that all the rates had not been agreed upon and placed in the hands of agents as at June 30, 1943."

110. The figure used by the Comptroller General was apparently an estimate based on such information as was available at the time of the audit. Since the statements of the War Shipping Administration were not forwarded until April 15, 1944, it would appear that the War Shipping Administration had ample time in which to make some estimate of the amount receivable for statement purposes had anyone in the Administration taken the initiative to do so.

111. The War Shipping Administration's schedule L-1, supporting their June 30, 1943, statements, shows under the defense-aid program

an account payable in the amount of \$527,035,762.01 for "Amounts due for rental and charter of vessels for foreign governments." It would appear that the bulk of this amount probably represented estimates of the amounts due to the War Shipping Administration. Since the liability under "Defense aid" as of June 30, 1943, was set up in the statements, it would appear that the asset under the War Shipping Administration's regular program could also have been set up. Therefore, the argument presented for not having set up this asset does not seem to be valid.

#### WAR SHIPPING ADMINISTRATION

"12. Erroneous year-end adjusting entries aggregating \$12,770,576.03, resulted in an overstatement of accounts receivable and Navy working-fund reserves."

"13. Erroneous year-end adjusting entries aggregating \$530,271.92, resulted in an overstatement of accounts receivable and the working-fund reserves of the War Department."

"14. Erroneous year-end adjusting entries aggregating \$10,731,335.74, resulted in an overstatement of accounts receivable and accounts payable."

#### 112. Summary of reply:

The reply admits that the adjustments made by the Comptroller General are correct.

#### 113. Comment:

The foregoing errors resulted from errors in balance sheet journal vouchers. A careful preparation of such vouchers or an adequate review after the vouchers were prepared would have eliminated the necessity for the subject adjustments.

#### WAR SHIPPING ADMINISTRATION

"15. Erroneous year-end adjusting entry of \$11,487,701.35 involving repairs to the steamship *George Washington* included in accounts receivable."

#### 114. Excerpts from reply:

In its reply to the Comptroller General's report the War Shipping Administration states: "Since, however, the Director, Bureau of the Budget, in a letter dated October 27, 1942, approved absorption, by the War Shipping Administration, of the cost of the repairs in question, it follows that the Comptroller General's adjustment, which canceled the receivable against the War Department, is correct."

#### 115. Comments:

Attention is called to the fact that the above-referenced letter from the Director, Bureau of the Budget, was dated in 1942; whereas the incorrect debit to accounts receivable was posted to account 165.20, accounts receivable—Suspense, War Department, steamship *George Washington* (MCc-1642, Supl. 111) from War Shipping Administration post closing miscellaneous journal voucher No. 43-4460, dated August 31, 1943. The actual posting was made along with the September work, date of posting unknown. It should be noted that the



journal voucher setting up the receivable was not prepared until approximately 10 months after notification from the Bureau of the Budget that the item was not a receivable.

116. The mechanics of handling this type of item for statement purposes is illustrative of the roundabout and involved procedure followed. The balance on the books as of June 30, 1943, for accounts receivable, United States War Department, was placed on a work sheet as the starting point in the development of balance sheet figures. This item, of course, not having been posted until considerably later, was not included in the starting figure. Some time after June 30, 1943, the accounts were examined for items posted subsequent to the June 30, 1943, postings, but applicable to the June 30, 1943, statements. The items so found, including the subject item, were summarized in balance sheet journal voucher form and then applied to the work sheet figures used as a starting point. (Approximately 2,000 of such items are included on BSJV No. 1.) The actual date of preparation of balance sheet journal voucher No. 1 is not indicated and the voucher is prepared in pencil.

117. Balance sheet journal voucher No. 29, prepared December 8, 1943, debited account 331, vessels and floating equipment, steamship *George Washington*, and credited clearance account 806, vessel repairs and betterments—steamship *George Washington*, in the amount of \$11,487,701.35, the explanation being "To capitalize, for balance sheet purposes, repairs and conversion costs on the above vessel. Above costs to be depreciated over estimated life of 5 years, per instructions of Mr. J. M. Quinn, November 12, 1943." Attention is again called to the fact that balance sheet journal vouchers were not posted to the books, but were used merely for statement purposes. It will also be observed that, at this point, for balance sheet purposes the item was included as an asset in two places (1) as an accounts receivable and (2) as vessels and floating equipment. It was this situation which the Comptroller General adjusted.

118. Journal voucher No. 44-6-2046, prepared October 3, 1944, debited account No. 331-13 (floating equipment, vessels) and credited account 165.20 (accounts receivable, suspense, United States War Department—Miscellaneous, U. S. A. T. *George Washington*) in the amount of \$11,606,571.36. This journal voucher was made as of June 1944 and was apparently posted on October 10, 1944. Attention is called to the fact that this correction is dated approximately 2 years after the letter from the Bureau of the Budget.

#### WAR SHIPPING ADMINISTRATION

"16. Erroneous year-end adjustment resulting in an overstatement of accounts receivable by \$1,202,000."

119. Summary of reply:

In its reply to the Comptroller General's report the War Shipping Administration concurs in the adjustment made and states that the Comptroller General's adjustment is correct.

120. Comments:

The \$1,202,000 represented billings to the War Department for advances to cover purchase of three vessels and were invoiced (invoices 43-24168, 24169, and 24170) in 1943 and were unpaid at June 30, 1943.



It is to be noted that these invoices were actually recorded on the books. Balance sheet journal voucher No. 42 (prepared for balance-sheet purposes and not recorded on the books) did not take into consideration the foregoing invoices which had been actually recorded, thus duplicating the amount of the three invoices in the total of accounts receivable as shown on the published statements of the War Shipping Administration. Again, it appears that adequate review of the balance sheet journal vouchers would have prevented the error.

#### WAR SHIPPING ADMINISTRATION

“17. Erroneous year-end adjustment of \$139,316.63 resulting in an overstatement of accounts receivable and unearned premiums.”

#### 121. Reply:

“Our investigation of this adjustment reveals the fact that the amounts involved were overstated in the published statement of assets and liabilities of the War Shipping Administration as at June 30, 1943, and, accordingly, the Comptroller General’s adjustment is correct.”

#### 122. Comments:

Since the War Shipping Administration admits that the Comptroller General’s adjustment is correct, only a brief description of this bookkeeping error is given herewith. War Shipping Administration invoices WSA-43-26759, 26760, and 26761 in the amount of \$80,000 each were issued to the Norwegian Shipping and Trade Mission on May 14, 1943. These were all posted as debits to account 155.2 (S. S. *Fridtjof Nansen*), insurance accounts receivable; and credited to account 562, hull insurance premiums unearned.

123. On June 5, 1943, War Shipping Administration credit memoranda Nos. WSA-43-28044, 28046, and 28048 were issued to cancel the above invoices. These were posted as a debit to account 562, hull insurance premiums unearned; but the credits were posted to account 155.2 (\$80,000 to S. S. *General Fliescher*, \$80,000 to S. S. *General Ruge*, and \$80,000 to S. S. *Roald Amundsen*), insurance accounts receivable.

124. The above entries, combined with other entries, resulted in year-end ledger accounts as follows:

S. S. <i>General Fliescher</i> .....	\$46, 191. 78
S. S. <i>General Ruge</i> .....	44, 657. 53
S. S. <i>Roald Amundsen</i> .....	44, 657. 53
Total.....	135, 506. 84

125. Accounts distribution journal voucher No. 37, page 4, debited account 155 (accounts receivable) and credited account 562 (hull insurance premiums unearned) for \$135,506.84 plus a few other items representing cash remittances credited to the wrong subsidiary ledger accounts. The General Accounting Office adjustment corrected the errors involved on accounts distribution journal voucher No. 37. The War Shipping Administration corrected the erroneous postings to the subsidiary ledgers in February 1944.

126. This type of error, which is admitted by the War Shipping Administration, indicates a poor control by administrative officials over year-end adjustments that are prepared for statement purposes.



The year-end adjustments are prepared in various units of the War Shipping Administration, and, as indicated elsewhere in the report, many of them appear not to have been reviewed by responsible officials so as to remove duplications and other types of errors.

## WAR SHIPPING ADMINISTRATION

"18. Repairs under insurance claims improperly recorded as accounts receivable totaling \$223,453.64."

## 127. Reply:

"Our investigation of this item developed the fact that the adjustment appearing in the report of the Comptroller General is correct. For your information, however, a proper adjustment was made by our accounting staff prior to receipt of the Comptroller General's report."

## 128. Comment:

So far as can be determined the same error was repeated in preparing the June 30, 1944, financial statements of the War Shipping Administration.

## WAR SHIPPING ADMINISTRATION

"19. Erroneous year-end adjustment indicating an account receivable of \$100,000, which was actually collected prior to June 30, 1943."

## 129. Reply:

"Our investigation of this item reveals that the Comptroller General's adjusting entry is correct."

## 130. Comments:

The bookkeeping with respect to subject item was as follows:

(a) Remittance manifest No. WSA-43-1468 dated May 13, 1943, was recorded as follows:

101. Cash (11X0520) .....	\$50, 000
165.3. Accounts receivable—Tampa Shipbuilding Co., Inc. (to credit accounts receivable—billed) .....	\$50, 000

(b) Remittance manifest No. WSA-43-1615, dated June 8, 1943, was recorded as follows:

101. Cash (11X0520) .....	\$50, 000
165.20. Accounts receivable—Suspense (unbilled) TSB .....	50, 000
165.3. Accounts receivable—TSB (billed) .....	\$50, 000
690. Miscellaneous income .....	50, 000

To record check No. 26388, dated June 2, 1943, from the Tampa Shipbuilding Co., Inc., in the amount of \$50,000, representing partial payment of recapture profits on master contracts DA-MCc-609 and MCc-2635 for the calendar years 1941 and 1942.

(c) The total amount involved amounted to \$241,316.96. Since \$100,000 had been collected, the War Shipping Administration issued invoice No. WSA44-7 (a fiscal year 1944 invoice number) in the amount of \$141,316.96, which was recorded as follows:

165.3. Accounts receivable—Tampa SB (billed) .....	\$241, 316. 96
165.20. Accounts receivable, suspense .....	\$191, 316. 96
690. Miscellaneous income, TSB .....	50, 000. 00

The face of the invoice had this notation:

Amount of this invoice.....	\$241, 316. 96
Less payments made:	
May 1943.....	\$50, 000
June 1943.....	50, 000
	<hr/> 100, 000. 00
Balance due.....	141, 316. 96

It also indicated that account 165.20 was "to be cleared as remittance manifests are received." It is to be noted that invoice No. WSA44-7 was issued and recorded as a fiscal year 1944 transaction.

(d) In order to place this item on the statements as of June 30, 1943, balance sheet journal voucher No. 10, prepared December 23, 1943, was set up on the work sheets as follows:

165.3. Accounts receivable (billed).....	\$241, 316. 96	
690. Miscellaneous income.....		\$241, 316. 96

(e) For balance sheet purposes only, accounts distribution journal voucher No. 39 was prepared with the following debits and credits affecting this item:

165.3. Accounts receivable (billed).....	\$50, 000	
690. Miscellaneous income.....		\$50, 000

To transfer receivable items from various accounts to accounts receivable for balance sheet purposes.

(f) For balance sheet purposes (ignoring the 1944 invoice WSA44-7 posting) these accounts appeared as follows:

101. Cash.....	\$100, 000. 00	
165.3. Accounts receivable (billed).....	191, 316. 96	
165.20. Accounts receivable (unbilled).....	50, 000. 00	
	<hr/>	
690. Miscellaneous income.....		\$341, 316. 96

131. The Comptroller General corrected the statements by making the following adjustment:

690. Miscellaneous income.....	\$100, 000	
Accounts receivable.....		\$100, 000

132. It is interesting to note, also, that the information on the books after posting invoice No. WSA44-7 during July 1943, was as follows:

101. Cash.....	\$100, 000. 00	
165.3. Accounts receivable, TSB (billed).....	141, 316. 96	
165.20. Accounts receivable (unbilled).....		\$141, 316. 96
690. Miscellaneous income (1943).....		50, 000. 00
690. Miscellaneous income (1944).....		50, 000. 00

133. It appears that one attempt to correct this situation on the books was made by journal voucher No. JV-44-5-451, posted on July 13, 1944:

165.20. Accounts receivable, TSB (unbilled).....	\$141, 316. 96	
564. Miscellaneous deferred credits, TSB.....		\$141, 316. 96

"To transfer to account 564, miscellaneous deferred credits, amounts originally charged to account 165.20 on invoices \* \* \* and WSA44-7."

134. Because of lack of time, any further attempts to trace the subject item were not made. However, an examination of the "paid files" of the War Shipping Administration indicated that notations of payment were listed as follows: "7/13/43, \$50,000; 8/2/43, \$50,000;



and 8/30/43, \$36,365.35; or a total of \$136,265.35." The notation also indicated that the "balance is being handled by Ramer's office." An interoffice memorandum from F. F. Barnett to W. A. Ramer on September 1, 1943, indicated that the balance of \$5,051.61 would be canceled. It thus appears that no money was lost to the Government on this series of transactions; the bookkeeping, however, apparently could have been greatly simplified.

#### WAR SHIPPING ADMINISTRATION

"20. Credit memorandums totaling \$598,492.65, processed in 1944 covering insurance premium reductions applicable to insurance accounts receivable shown as outstanding at June 30, 1943."

#### 135. Summary of reply:

"Since the amounts of these premium reductions were applicable to open receivables as at June 30, 1943, we have no objection to the Comptroller General's adjustment, even though it is based upon our fiscal year 1944 accountings."

#### 136. Comments:

The amount of the subject adjustment was apparently arrived at by analyzing the noncash credits to accounts receivable recorded subsequent to June 30, 1943, but applicable to accounts receivable reflected in the War Shipping Administration's financial statements as of June 30, 1943.

137. In general, the procedure followed by the War Shipping Administration in handling the accounting for War Risk insurance premium collections in fiscal year 1943 was as follows: At the time the policy was issued the total premium receivable was charged to accounts receivable, and credited to insurance premiums unearned (closed quarterly to reserve for war-risk insurance). At the time the premium was collected and deposited the cash account (available funds on deposit, United States Treasury) was debited and the accounts receivable credited.

138. However, in the actual operation of the foregoing procedure it appears that many checks covering premiums were received and held undeposited. Many of the undeposited checks were later returned to the assured in exchange for checks of lesser amount—such smaller amount having been accepted in anticipation of an endorsement to be subsequently written to the original policy. Such substituted checks were deposited with the result that the accounts receivable were credited with smaller amounts than the original debits. In many instances, at the time of deposit there were no written endorsements in support of these discrepancies. At a later date the endorsements were prepared and used as bases for credit memoranda to correct the accounts receivable. In most instances an unsigned copy of the endorsement was used as authority for the credit memorandum. (See exhibit 6.) To illustrate, policies totaling over \$280,000 were written in April 1942, and the endorsements thereto were not dated until October 14, 1944.<sup>10</sup>

<sup>10</sup> This information was based in part on "Recapitulation of various policies and binders under review by GAO showing amount of premium adjustment through accounting records as of June 30, 1943," prepared by the Policy Issuing and Statistical Section of War Shipping Administration on January 10, 1946, with accompanying letter from L. W. Niggeman, Acting Director of Wartime Insurance.



## WAR SHIPPING ADMINISTRATION

"21. Erroneous inclusion of \$127,454,148 in accounts receivable, which was actually expenses of voyages in progress."

## 139. Reply:

"Our investigation of this item disclosed the fact that schedule A3-2, war risk accounts receivable, forming a part of the published statement of assets and liabilities of the War Shipping Administration as at June 30, 1943, reflected accounts receivable of \$127,454,148 against the War Shipping Administration revolving fund. These receivables, which were recorded in the accounts covering war risk insurance fund activities, were covered by invoices Nos. WSA-44-322 to 327, inclusive, and invoice No. WSA-43-29006. The 1944 invoices covering prior periods were taken into consideration for balance-sheet purposes in the preparation of the afore-mentioned statement of assets and liabilities.

"The records further indicate that such invoices were liquidated in August and September 1943 by the transfer of funds from the War Shipping Administration revolving fund to the war-risk insurance fund through the medium of standard forms 1080 and the payments recorded on WSA MRM-44-155 and WSA MRM-44-86. It will thus be seen that the receivable as included in the published statement of assets and liabilities of the War Shipping Administration as at June 30, 1943, was correct from the standpoint of the accounts covering the marine and war-risk insurance fund. However, this transaction was not accrued as at June 30, 1943, in the accounts of the War Shipping Administration by an offsetting liability, the contra of which would have been a charge to 'Voyage expense.' Such charge was effected upon payment of the referred to forms 1080. Accordingly, we believe that the Comptroller General's adjustment to the June 30 published statement of assets and liabilities of the War Shipping Administration should have been a debit to 'Voyages-in-progress' and a credit to 'Accounts payable, marine and war-risk insurance fund,' on the records of the War Shipping Administration without disturbing the referred to accounts receivable of \$127,454,148 as reflected in the war-risk insurance fund accounts."

## 140. Comments and opinion:

The reply of the War Shipping Administration indicates a confusion between fund accounting, as such, and consolidated statements covering such funds. In effects, the statement prepared by the War Shipping Administration is a consolidated statement. The information underlying the subject adjustment was brought into the financial statements of the War Shipping Administration by balance-sheet journal vouchers in the following manner:

War-risk insurance fund:

Accounts receivable—WSA revolving fund----	\$127, 454, 148	
War-risk insurance fund reserve-----		\$127, 454, 148

The War Shipping Administration failed to make the following entry which also should have been made simultaneously:



WSA revolving fund:

Voyages in progress (1943 expense) .....	\$127, 454, 148
Accounts payable, war-risk insurance fund .....	\$127, 454, 148

In addition the interfund receivables and payables should have been eliminated for consolidated statement purposes as follows:

Accounts payable, war-risk insurance fund .....	\$127, 454, 148
Accounts receivable, WSA revolving fund .....	\$127, 454, 148

141. Since the War Shipping Administration had made only the first of the three foregoing entries, the Comptroller General (for purposes of the audited statement) debited voyages in progress and credited accounts receivable. This adjustment appears to be appropriate under the circumstances.

142. It is considered significant that this item was handled on the War Shipping Administration balance sheet as of June 30, 1944, in the manner suggested by the Comptroller General's adjusting entry; a quick review of the item indicated that it was not handled in the manner suggested by the War Shipping Administration reply to the 1943 audit report.

#### WAR SHIPPING ADMINISTRATION

"22. Erroneous year-end adjustment of \$378,193.96 resulting in an overstatement of accounts receivable."

143. Summary of reply:

The reply acknowledges the correctness of the Comptroller General's adjustment.

144. Comment:

As stated in the reply this adjustment was necessary because of error in the preparation of balance-sheet journal vouchers. It is considered that this type of error has been sufficiently commented upon.

#### WAR SHIPPING ADMINISTRATION

"23. Repairs and betterments to vessels prior to use of approximately \$32,000,000 incorrectly charged to expense."

145. Reply:

"The above adjustment involves the cost of installation of betterments, repairs, national defense features, degaussing, and conversions on approximately 35 vessels. These installations were performed under master repair contracts; in most instances progress payments were made thereunder.

"We do not agree with the Comptroller General's adjustment inasmuch as it was an impossibility to correctly segregate the various types of costs incurred under the repair contracts as at June 30, 1943; nor do we subscribe to the theory of capitalizing costs covering national defense features, degaussing, conversions and certain initial repairs performed solely for war use. While some of the costs undoubtedly cover capitalizable betterments, we believe that our statement of assets and liabilities would have been incorrect to a far greater degree had we capitalized the entire \$32,267,145.45 as did the Comptroller General's auditors.

"It is the general policy of the War Shipping Administration and the Maritime Commission to capitalize vessel repair costs

only in those instances where the revenue earning capacity of the vessel for normal peacetime use is enhanced."

146. Comments and opinion:

A review of the audit working papers of the Comptroller General indicated that the cost of national defense features and degaussing was not included in the adjustment made by the Comptroller General.

147. Such review also indicated that the repairs covered by the subject adjustments were made to vessels which were either (1) in a damaged condition at the time of acquisition, (2) "laid up" when acquired, or (3) were acquired for a specific purpose requiring extensive changes before use. Apparently all vessels, but one, were over-age. According to generally accepted principles of accounting, the initial cost of placing an asset in a usable condition is properly capitalized as part of the cost. With respect to the last sentence quoted from the reply, see exhibit 10.

148. With respect to the statement that "\* \* \* it was an impossibility to correctly segregate the various types of cost incurred under the repair contracts as at June 30, 1943 \* \* \*" it is significant that the information used by the Comptroller General was taken from the records of the War Shipping Administration and practically all of the information was available at the time of preparation of the June 30, 1943, statements. This is substantiated by the fact that according to representatives of the Comptroller General the information necessary for the subject adjustment was included in the financial statements under the repairs account.

#### WAR SHIPPING ADMINISTRATION

"24. Acquisition cost of vessels aggregating more than \$16,000,000 charged to deferred charges and prepaid expense."

149. Reply:

"This sum of \$16,789,686.55 represented the estimated acquisition cost of 33 vessels requisitioned and which were on hand at June 30, 1943, to be paid for out of lend-lease funds. Actual just compensation was not determined, for the most part, until the fiscal years 1944 and 1945, during which time payments were made to the owners of the vessels from funds allotted by the Foreign Economic Administration.

"The deferment of the estimated acquisition cost of the aforementioned vessels was in conformity with the policy adopted by the War Shipping Administration of deferring all lend-lease charges for the fiscal year 1943 until such time as specific instructions were issued by the Foreign Economic Administration as to their treatment."

150. Comments and opinion:

The War Shipping Administration originally recorded this item in expense account 810, "Purchases of vessels and other floating equipment." In the published statement of assets and liabilities, however, the item was buried in the defense-aid program under "Deferred charges and prepaid expenses," under the above-mentioned policy of "deferring all lend-lease charges for the fiscal year 1943 \* \* \*." The Comptroller General transferred this item from expense account



810 to the asset account 331, "Floating equipment, vessels." The War Shipping Administration's defense-aid program comparative balance sheets for June 30, 1944, and June 30, 1943, includes an amount of \$20,237,525.39 under "Floating equipment, vessels" in the June 30, 1943, column; whereas under the defense-aid program on the 1943 statements no amount was shown under this caption. This indicates that the War Shipping Administration apparently agreed with the Comptroller General at the time of preparation of the 1944 comparative statements.

151. The 33 vessels involved in this transaction were in the custody of a foreign government under lend-lease arrangements, but title remained in the United States. Until and unless titles to such vessels were transferred to the foreign government, their value appears to be an asset of the War Shipping Administration, defense-aid program. They were so shown in the Administration's published statement for the defense-aid program as at June 30, 1944. This should be sufficient evidence to indicate that the Comptroller General was correct in making the subject adjustment on the 1943 statements.

#### WAR SHIPPING ADMINISTRATION

"25. Vessels lost at sea aggregating more than \$13,000,000 still carried as an asset at June 30, 1943."

152. Reply:

"An investigation of this adjustment reveals the fact that there were eight vessels involved therein, the book value of which aggregated \$13,631,494.78. All of these vessels were lost prior to June 30, 1943. Of these lost vessels, one was reported to this office on June 22, 1943, one reported on July 10, 1943, and one reported on April 29, 1944, and, of the remaining five, no notification whatsoever was received prior to release of the published statement of assets and liabilities of the War Shipping Administration as at June 30, 1943.

"We do not consider this item an error of omission or commission since the then-existing security regulations did not permit the release of the names of vessels lost or sunk by enemy action or otherwise. As a matter of information, however, the book values of these lost vessels were appropriately adjusted prior to the receipt of the Comptroller General's report."

153. Comments and opinion:

The information which was the basis of the Comptroller General's adjustment was apparently available in the operating divisions and in the Economics and Statistics Division substantially prior to the date of release of the June 30, 1943, financial statements.

154. The statement that "the book values of these lost vessels were appropriately adjusted prior to the receipt of the Comptroller General's report" is correct as to seven of the vessels. As to the other vessel adjustments, attention is called to the fact that the Comptroller General's report was received by the War Shipping Administration in January 1946, and to the fact that journal voucher 46-5-535, prepared June 21, 1946 (posted as of April 30, 1946), increased account 998.1, "Total losses, floating equipment, owned vessels" by \$3,087,938.52 through surplus adjustment account 090 for fiscal year 1943.



WAR SHIPPING ADMINISTRATION

“26. Failure to record depreciation on vessels in excess of \$3,500,000.”

155. Excerpts from reply:

The War Shipping Administration concurs in and/or has no objection to depreciation on all vessels listed except on “various vessels purchased or requisitioned by War Shipping Administration” (item g). This item “represented depreciation on certain repairs to vessels purchased or requisitioned by the War Shipping Administration. These repairs, aggregating \$32,267,145.45, are treated under item 23 hereof. Since, in our comments under item 23, we declined to agree with the Comptroller General’s contention that all of the items should be capitalized, it follows that we cannot concur in this depreciation adjustment.” Item (g) as set forth in the reply totals \$1,460,055.95.

156. Comments and opinion:

A review of the Comptroller General’s audit working papers indicates that item (g) covers not only depreciation on “certain repairs to vessels purchased or requisitioned” as indicated by the War Shipping Administration reply, but also covers depreciation on small craft not provided by the Administration as follows:

<i>Barralton</i> -----	\$15, 386. 28	<i>Radio</i> -----	\$4, 473. 84
<i>Buttercup</i> -----	19, 254. 21	<i>Rescue</i> -----	35, 291. 20
<i>Edmund J. Moran</i> -----	20, 619. 42	<i>S. G. barges (Nos. 2 to 9)</i> -----	14, 664. 51
<i>Gresham</i> -----	3, 550. 00	<i>Valley Forge</i> -----	28, 333. 22
<i>Gypsum Prince</i> -----	4, 584. 00	<i>Winthrop</i> -----	660. 00
<i>Humrick</i> -----	10, 891. 40		
<i>Interstate No. 7</i> -----	10, 172. 50	Total-----	192, 153. 30
<i>King Flash</i> -----	504. 00	Depreciation on better-	
<i>Lake Crystal</i> -----	4, 312. 00	ments and/or repairs	
<i>Lake Hemlock</i> -----	4, 874. 55	made to vessels at time	
<i>Lake Louise</i> -----	4, 166. 65	of acquisition-----	1, 267, 902. 65
<i>Pisces</i> -----	1, 108. 31		
<i>Portsmouth</i> -----	8, 730. 76	Total-----	1, 460, 055. 95
<i>Queen Flash</i> -----	576. 45		

157. As stated in the foregoing paragraph 146, according to generally accepted principles of accounting the initial cost of placing an asset in a usable condition is properly capitalized as part of the cost of such asset. Since the initial repairs, in our opinion, are a proper inclusion in cost it necessarily follows that such repair charges should be included in the bases for determining depreciation on the vessels. Accordingly, the adjustment made by the Comptroller General is considered to be correct even though contested by the War Shipping Administration with respect to the \$1,460,055.95 mentioned in the preceding paragraph.

WAR SHIPPING ADMINISTRATION

“27. Inclusion of over a billion dollars in assets of the Administration covering expenses paid for other Government agencies out of funds provided by them.”

158. Reply:

“The War Shipping Administration, in its capacity as procuring agency of the United States in furnishing lend-lease aid, chartered vessels to foreign governments under lend-lease arrange-



ments, provided ocean transportation of cargoes and personnel, repaired and serviced merchant vessels of foreign governments, and transferred to such governments marine supplies and equipment.

"To finance such activities, the Administration received lend-lease funds made available to it by the Foreign Economic Administration, and, therefore, the War Shipping Administration was accountable to the Foreign Economic Administration for funds disbursed for lend-lease activities. However, as is hereinbefore indicated under item 24, it was the policy to defer all lend-lease charges pending appropriate instructions from the Foreign Economic Administration as to their treatment."

159. Comments and opinion:

It is noted in the comparative balance sheets of the defense aid program for June 30, 1944, that the treatment of this type of item differed from the treatment as of June 30, 1943, and was in conformity with the adjustment made by the Comptroller General in the 1943 audit report. In the 1944 report it was shown as a reduction in the "Excess of assets over liabilities."

WAR SHIPPING ADMINISTRATION

"28. Failure to record over \$50,000,000 of accounts payable for repairs prior to June 30, 1943."

160. Reply:

"A review of this item indicates that the adjustment made by the Comptroller General's auditors was compiled from information received by this office subsequent to June 30, 1943, of which we were unaware at the time of closing the books of account for the fiscal year ended June 30, 1943.

"The information was taken from public vouchers which were paid in the fiscal year 1944 and in some instances fiscal year 1945. As these items were distributed to the proper accounts in these subsequent periods, the adjustments to the fiscal year 1943 were accomplished."

161. Comments and opinion:

It appears that, in the preparation of the balance sheet journal vouchers as of June 30, 1943, no attempt was made by the Administration to pick up amounts paid subsequent to June 30, 1943, but prior to the date of preparation of the War Shipping Administration statements, which amounts represented open accounts payable as of June 30, 1943. Although it is recognized that the War Shipping Administration may not have been able to pick up the amount adjusted by the Comptroller General, it would appear that had it followed the procedure used by the Comptroller General, at least a substantial portion of the subject amount could have properly been shown as "Accounts payable" on the June 30, 1943 statements.

162. If there had been a reasonable amount of coordination between the Finance Division and the Division of Maintenance and Repairs, it would appear that instead of omitting this item, a reasonably accurate estimate could have been established and used for statement purposes.

163. The foregoing comment once again indicates either a lack of care by the War Shipping Administration in the preparation of its annual statements or poor transmission of accounting information from the operating divisions to the Budget and Accounts Section.

WAR SHIPPING ADMINISTRATION

“29. Failure to disclose actual liability for war-risk insurance claims as at June 30, 1943, of over \$250,000,000.”

164. Reply:

“The published statement of assets and liabilities of the War Shipping Administration, as at June 30, 1943, accordingly has been adjusted in the Comptroller General’s report, as follows:

Account	Debit	Credit
Claims payable, war-risk insurance:		
Add: Claims in process June 30, 1943, but not approved-----		\$237, 057, 148. 08
Add: Claims in process June 30, 1943, approved but not paid-----		4, 394, 946. 67
Add: Claims filed subsequent to June 30, 1943, relating to 1943 fiscal year-----		8, 559, 617. 24
Reserve for war-risk insurance:		
Less: Transfer of amount to cover outstanding recorded claims payable to that amount_	\$237, 057, 148. 08	
Less: Transfer of amount to cover approved claims in transit for payment but not paid-----	4, 394, 946. 67	
Less: Transfer of amount to cover unrecorded outstanding claims payable to that account_	8, 559, 617. 24	
Total-----	250, 011, 711. 99	250, 011, 711. 99

“It will be noted, from the above adjusting entries appearing in the Comptroller General’s report, that, of the \$250,011,711.99 of claims payable, only \$4,394,946.67 represented approved claims in process as at June 30, 1943, but not paid. The remaining balance of \$245,616,765.32 represented claims which were not approved as at June 30, 1943, of which \$237,057,148.08 represented claims in process and \$8,559,617.24 represented claims filed subsequent to June 30, 1943, relating to the fiscal year 1943. While the individual war-risk insurance claims were not established in our statement of assets and liabilities as payables, there was included in that statement sufficient war-risk insurance reserve to cover all the claims referred to, plus an adequate reserve for contingent claims.”

165. Comments and opinion:

Available information indicates that the Chief Adjuster, Division of Insurance, War Shipping Administration, had approved 1943 claims in the amount of \$204,789,313.43 prior to June 30, 1943, and that this information had been tabulated prior to November 1943. It would appear, therefore, that sufficient information was available to enable the War Shipping Administration to make the proper adjustment for the major portion of the questioned item prior to the preparation of its financial statements.

166. With respect to the statement in the War Shipping Administration reply that “237,057,148.08 represented claims in process”



as at June 30, 1943, it is understood to be the accepted practice in preparing the financial statements of insurance companies to report such pending claims as liabilities.<sup>11</sup>

167. It is noted that the subject adjustment as made by the Comptroller General removed over \$250,000,000 from the reserve for war-risk insurance. The reserve for war-risk insurance as shown by the War Shipping Administration was (prior to subject adjustment) approximately \$356,000,000.

THE AUDIT REPORTS OF THE COMPTROLLER GENERAL FOR THE FISCAL  
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168. A review of the Comptroller General's audit reports of the Maritime Commission and the War Shipping Administration for the fiscal year ended June 30, 1944, indicates that, although the reports are presented in slightly different form from that used in the 1943 reports, substantially the same charges are made as to errors, inadequacies and deficiencies in the accounting procedures and practices followed by the two agencies. The War Shipping Administration audit report, however, contains the following statement: "Improvement in the accounting methods and procedures for 1944 is noticeable as contrasted with 1943."

169. To date (September 9, 1946) the reply of the War Shipping Administration to the audit report has not been received, and the reply of the Maritime Commission was not submitted until September 6, 1946—too late for thorough review. However, a quick review of this reply indicates substantial similarity to the 1943 reply<sup>12</sup> and it is considered probable that the War Shipping Administration reply will be along similar lines.

170. In reviewing the major errors of omission and commission as set forth in the 1943 audit reports, the records and procedures with respect to fiscal 1944 were of necessity reviewed in connection with a few of the 1943 errors. Based upon the 1944 items reviewed it is believed that, although some improvement may have been made, whether substantial improvement had been made in fiscal 1944 is questionable.

<sup>11</sup> The "Convention" form of annual statement required to be filed with State regulatory authorities by insurance companies includes under the caption of "Liabilities for losses and claims" the following:

Adjusted or in process of adjustment.....	XXX
Incurred but not reported.....	XXX
Resisted.....	XXX
	XXXX
Less: Deduction for reinsurance.....	XXXX
Net unpaid claims.....	XXXX

<sup>12</sup> In its reply the Maritime Commission states: "The audit report covering fiscal 1944 is very similar, both in make-up, content and criticisms to the report for fiscal 1943 which was answered in considerable detail by me in my memorandum to you June 24, 1946, which is already in the possession of the Merchant Marine and Fisheries Investigating Committee. This allows, by reference to the previous report of June 24, 1946, of a less detailed answer covering the audit report for fiscal 1944 with special reference to the urgency with which the reply is desired by the investigating committee.

"The 1944 audit report repeats the 1943 criticisms of the Commission's accounting methods and procedures; and that the management of the Commission could not have been furnished current financial information from the accounting records; that the internal audit is incomplete, all of which were acknowledged and admitted in my memorandum of June 24, 1946, and are confirmed herewith.

"The inescapable import of all this is that the Commission's fiscal affairs have received a thoroughgoing investigation from a large staff and at considerable cost over a long period from the General Accounting Office and that subject to the qualifications in the auditor's final certificate as quoted above, together with the adjustments on the accounts made by General Accounting Office, and with the implied reservation that fiscal systems, methods, and procedures will be improved, the conclusion is necessarily to the effect that as of June 30, 1944, nothing further remains to be brought to the attention of either the Commission or the Congress regarding the Commission's fiscal system."



171. Since the foregoing review of the 1943 audit reports indicate that, in our opinion, the Comptroller General was substantially correct in his criticisms and since nothing has been examined which might cast doubt on the validity of criticisms in the 1944 audit report, it is considered that a detailed review of the 1944 report, such as has been given to the one for 1943, would merely be repetitious as to conclusions and would serve no useful purpose. It is considered, however, that the following miscellaneous comments may be appropriately made before concluding this preliminary report.

#### BOOKKEEPING ERRORS

172. Due to inadequately trained personnel or to poor supervision the actual ledger accounts reviewed disclosed many errors. Although it is recognized that many of them are merely minor bookkeeping errors, their presence in the records makes the tracing of transactions in some instances extremely difficult. Reference is made to exhibit 7 which illustrates the foregoing comment.

173. Exhibit 7 consists of four photostats of sheets Nos. 5, 6, 12, and 18 of account 028 which, for the fiscal period ended June 30, 1944, was entitled "Storeroom Freight and Cartage;" and for the fiscal year beginning July 1, 1944, account 028 was entitled "Securities Deposited with the War Shipping Administration." It is noted that, although most of the transactions recorded on the photostated pages are dated June 30, 1944, or June 31, 1944, three entries are dated July 30, 1944, November 20, 1944, and December 31, 1944—these latter dates being mixed in with the June 30, 1944, dates.

174. It is also noted that the securities are mixed in with the freight and cartage entries on the photostat pages; and at the time the ledger sheets were first examined, six pages of securities were bound between sheet No. 5 and sheet No. 6. The difficulty encountered by the machine operator in making the postings at the bottom of sheet 5 and the top of sheet 6 is also noted. Apparently the operator finally had to abandon the attempt to correct the seven-billion-dollar error by debit and credit entries, and resorted to writing in "to correct balance, June 31, 1944, \$58,830.91 Cr."

175. The penciled notation at the bottom of sheet No. 18, which explains the change in name of account 028, was not present at the time the sheet was originally examined, but was apparently written prior to photostating and after the "mix-up" was brought to the attention of appropriate personnel as a result of our review.

#### INADEQUATELY TRAINED PERSONNEL

176. As indicated in paragraph 172, many of the clerical bookkeeping errors were caused by inadequately trained personnel. The Maritime Commission in its reply to the 1943 audit report states that "Civil Service is not equipped to supply double-entry bookkeepers nor their executive management." The reply also points out that the Commission's accounting function is located "on the outskirts of northeast Washington, inaccessible to transportation, a location so undesirable that it was difficult to obtain employees and of those obtained, clerical absenteeism as high as 33 percent was recorded."

177. Although the statement that Civil Service is not equipped to supply double-entry bookkeepers is open to question, in our opinion



some of the difficulties of the War Shipping Administration and the Maritime Commission were probably due to the fact that the Civil Service Commission would not approve in many instances as high a rating as the nature of the accounting work to be performed warranted. For example, we have been informed that the Civil Service Commission would not allow a classification higher than a CAF-4 or possibly a CAF-5 for the general-ledger bookkeepers primarily because they were posting by machine rather than by hand. In our opinion a higher classification would probably have resulted in the obtainment of a higher type of bookkeeper and many of the errors made in "coding" items for posting might have been discovered and corrected prior to actual posting.

178. Coding consists of indicating on basic accounting documents (invoices, vouchers, etc.) the accounting entry or entries to be made in terms of debits and credits. Obviously accurate coding is necessary if accurate accounting records and statements are to result. Accurate coding is therefore a most essential function in the bookkeeping process. It is our understanding that in the case of coders also, the Civil Service Commission would not approve a sufficiently high rating. Since the Civil Service Commission would approve a higher rating for analyzing accounting records, we have been informed that an attempt was made to overcome the difficulty of underclassification of coders by establishing a unit to analyze the records and correct the errors resulting from poor coding. Since normally an item is coded, then posted, and not "analyzed" until later, it is evident that many man-hours were lost in posting and correcting incorrect entries which could have been correct in the first instance if the original coding had been proper. Had it not been for the above-mentioned difficulties with the Civil Service Commission, those who were actually doing the analyzing would probably have been doing the coding in the first instance.<sup>13</sup>

179. It is considered that the location of the accounting records "on the outskirts of northeast Washington" may, as claimed by the Commission, have affected the caliber of obtainable personnel. Although the considerations underlying the decision to place the accounting personnel and other personnel in the "Y" building are not known, we have been informed that early in the expansion of the subject agencies an opportunity to move into another temporary building, more conveniently located, was rejected. This information has not been verified.

#### CONCLUSION

180. Although, as brought out in this preliminary report, the accounting records for the fiscal years ended June 30, 1943, and June 30, 1944, were, in our opinion, generally inadequate and poorly maintained, the report cannot be dismissed without the observation that efforts are currently being made by both the War Shipping Administration and the Maritime Commission toward improvement. For example, a small-claims unit has been established within the Maritime Commission for the purpose of recovering such moneys as the available records indicate are recoverable—in fact, sources of

<sup>13</sup> A supervisor is quoted as follows: "Due to the methods used in making up the retention registers on the reduction in force (September 1946), we are forced to replace our trained and experienced coders who are war-service appointees with permanent employees who are inexperienced and must be trained to code our accounts."



recovery which are not indicated in the records are also being successfully explored. So far as can be determined the work of this unit is quite effective.

181. Furthermore, in connection with improvements in the accounting system and procedures it should be stated that we have arranged for an early conference between representatives of the Comptroller General, Maritime Commission, and the War Shipping Administration for the purpose of improving the accounting system and procedures in a manner satisfactory to all interested parties. It has been suggested that those representatives of the Comptroller General who actually made the subject audits and those representatives of the two agencies who actually supervise the accounting and book-keeping functions, be present at the conference in order to insure that the agreements which may be reached will not be made without taking into consideration the actual problems involved in effectuating them. We have merely initiated the conference with the hope that the participants will cooperate and conduct it in such a manner as to lead to improvement in the accounting records of the Maritime Commission and the War Shipping Administration and to future harmony between these two agencies and the Comptroller General (exhibit 8).

182. In view of the inaccuracies noted above and the difficulties in tracing transactions through the records, it is considered that this preliminary report could not be concluded without stating that, in our opinion, the Field Auditing Unit, Audit Division, of the Comptroller General's office did a remarkably good job in making the 1943 and 1944 audits. With a few exceptions (indicated elsewhere in this report) the audit appeared to be reasonable under the circumstances.

183. We wish to express our appreciation for the excellent cooperation received from representatives of the Maritime Commission, the War Shipping Administration, and the Comptroller General in the course of our review. On a number of occasions we have informally requested information from representatives of these agencies and have had many informal discussions with such representatives concerning accounting matters. To the extent deemed appropriate full reliance was placed on information submitted and on statements made during these informal discussions, particularly where written evidence (in the Maritime Commission or War Shipping Administration records or in the Comptroller General's audit working papers) seemed to indicate that such reliance was well placed.

SIVERT M. WEDEBERG,  
C. WILBUR CISSEL,  
*Accounting Advisers to the Merchant Marine  
and Fisheries Investigating Committee.*

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MEMORANDUM OF ACCOUNTING INVESTIGATION OF THE MARITIME  
TRAINING ORGANIZATION, WAR SHIPPING ADMINISTRATION, FROM  
INCEPTION TO JUNE 30, 1946

*1. Scope of examination*

From September 12 to 17, 1946, the accounting history of the Training Organization was reviewed, chiefly by means of conversations with appropriate personnel in that organization. Various accounting rec-



ords and reports were briefly scanned to verify assertions made in conversations.

2. *Accounting supervision and control by War Shipping Administration*

The Maritime Training Organization was transferred from the Coast Guard to the War Shipping Administration on September 1, 1942. The finance office of this organization operated independently of any supervision from the War Shipping Administration, Division of Finance, until the latter part of 1944. Control accounts were maintained on the books of War Shipping Administration but were not reconciled with records kept by the Maritime Training Organization. Beginning in 1946 a study of accounting and budget difficulties was made by War Shipping Administration and new procedures, including a double-entry accounting system, were introduced as to the 1947 appropriations effective July 1, 1946. Attempts are being made to correct errors in accounting for earlier appropriations.

Many of the accounting difficulties described below appear to have resulted from a lack of adequate accounting supervision and control of the Training Organization by War Shipping Administration.

3. *Appropriations administered*

Through fiscal year 1946 the Training Organization administered the following appropriations:

	Fiscal year—					
	1942	1943	1944	1945	1946	No year
Maritime training fund.....	112/30523	<div><div>112/30523</div><div>1130523</div></div>	<sup>1</sup> 1144002	<sup>1</sup> 1154002	<sup>1</sup> 1164002	11x0523
State marine schools.....	1120522	1130522	1144001	1154001	1164001	-----
Working funds.....	112/45940	112/45940	112/45940	1155940	-----	-----

Maritime training fund was appropriated for (1) training merchant marine personnel and (2) purchase of training ships (112/30523).<sup>2</sup>

State marine schools funds were appropriated to reimburse States for expenses incurred in the maintenance and support of marine schools in such States.

Working funds were transferred from War Department appropriations for transportation of Army personnel.

<sup>1</sup> Recruitment, manning and other operations covered by these appropriations, were not administered by the Training Division.

<sup>2</sup> Some training ships were purchased under War Shipping revolving fund (11x0520 or 11x4000) instead of maritime training fund, balance of which was transferred to surplus funds of Treasury on June 30, 1945.

4. *Accounting records*

(a) Cash book single-entry accounts were kept in a cash book, separate accounts being maintained by appropriations and by disbursing offices. The cash book was posted from daily schedules submitted by the field finance offices. An analysis of these accounts by the office of the Assistant General Accountant, War Shipping Administration, revealed the following unexplained differences between the disbursements posted to such accounts and the Treasury's account current statements as of June 30, 1945.

	Balance overstated	Balance understated
Maritime training fund:		
1945 appropriation 1154002.....	\$332, 250. 11	.....
1944 appropriation 1144002.....	811, 131. 86	.....
1943 appropriation 1130523.....		\$39, 391. 90
No year appropriation 11x0523.....	2, 846. 20	.....
State marine schools: 1944 appropriation 1144001.....	5, 831. 96	.....
Working funds, U. S. Army:		
Appropriation 112/45940.....	2, 139. 55	.....
Appropriation 1155940.....	5, 774. 06	.....
Total.....	1, 159, 973. 74	39, 391. 90
Understated.....	39, 391. 91	.....
Net overstatement.....	1, 120, 581. 83	.....

Frequently entries were made in the cash book to record unexplained differences between the balances therein and balances shown in the Treasury's monthly account, "Current statements." These adjustments were not reported to War Shipping Administration. Following is a sample of the adjustments entered in January and February 1945:

Date	Training organization disbursing office	Credits to appropriation	
		1144002	1154002
January 1945.....	New York.....	\$482, 290. 02	.....
Do.....	San Francisco.....	235, 951. 57	.....
February 1945.....	Atlanta.....	93, 202. 12	.....
Do.....	Washington.....		\$489, 624. 47
Do.....	New York.....		49, 136. 48

The following transfers of appropriations were recorded erroneously as disbursements and so reported to War Shipping Administration:

January 1944, Washington.....	\$2, 921, 086. 63
March 1945, Washington.....	1, 520, 338. 44

Numerous other errors in keeping the cash book appear to have been made. It is understood that the training organization is now engaged in locating such errors and reconciling the cash book with the Treasury's account-current statements.

(b) *Collections.*—Schedules of collections (Form 1044) detailed by Treasury symbol accounts were submitted daily to Treasury with copy to training organization covering:

- (1) Appropriation reimbursements and refunds,

(2) Miscellaneous receipts, and

(3) Special deposits.
- (1) Memorandum records of appropriation reimbursements and refunds were maintained and the amounts reported to the War Shipping Administration but such records and reports were not reconciled with the monthly Treasury's account current statements.

(2) Miscellaneous receipts were reported as appropriation reimbursements and refunds until a General Accounting Office audit-revealed the mistake and transfers were made. As a result, miscellaneous receipts rose from \$167,000 in 1944 to \$731,000 in 1945 and \$1,077,000 in 1946. These receipts cover sale of stores, subsistence, Government property, etc. No accounting record of such receipts was maintained and no reports thereof were rendered to War Shipping Administration.

(3) Special deposits covered deductions for employees war savings bonds, Federal withholding tax, civil-service



retirement fund, and other purposes. Items reported on "Schedules of collections" and "Schedules of voucher deductions" (Form 1096) by field offices were recorded in memorandum records but no record was made of voucher deductions originating in the Washington office affecting civilian employees. The memorandum records were not reconciled with the Treasury's account-current statements.

(c) *Other aspects of accounting.*—Officials in charge of the Training Organization assert that the records maintained by the field offices were properly kept, including cash accounts and card records of physical property acquired; that qualified auditors reviewed the records of each field office at 4-month intervals; and that cost control of subsistence (one of the largest expenses) was maintained through monthly statistical reports from each field office.

As noted in footnote (1) to paragraph 3 above, parts of appropriations for Maritime Training Organization through fiscal 1946 were administered by War Shipping Administration, hence accounting control thereof could not be maintained by the Training Organization. It is understood that appropriations transferred to Public Health Service were accounted for quarterly but that no reports of the status of such transferred appropriations were made to War Shipping Administration.

## 5. Budgetary control

(a) *Reimbursements to appropriations.*—Details could have been secured by analysis of monthly collection schedules from field offices but no control was maintained and, in fact, reimbursements to appropriations were combined with appropriation refunds for report purposes.

(b) *Obligations incurred during current fiscal year.*—Forms F-1 and F-2 submitted monthly by the field offices report obligations and disbursements cumulative for the fiscal year by appropriations. These reports are detailed by budgetary accounts and subclassifications thereof for management control. Totals from these reports are shown on "Report of obligations" to War Shipping Administration budget officer and posted to allotment ledger accounts with each field office. As of June 30, 1946, appropriation 1164002.001 obligations were reported to War Shipping Administration (based on Form F-1 reports) as \$35,311,504.59 whereas the allotment ledger showed \$38,616,922.57. This difference may arise from duplications in stores accounts in the allotment ledger.

(c) *Unliquidated obligations brought forward from prior years.*—These are handled in the same manner as obligations incurred during current fiscal year, described above, and are subject to the same criticism for lack of control.

(d) *Expenditures during fiscal year.*—Expenditures are reported on Form F-1 as liquidation of obligations and posted to allotment ledger accounts but reports are compiled from the cash book, not from Form F-1 reports. The cash book is posted from "Schedules of disbursements" submitted daily by field offices to Training Organization. The monthly totals of the schedules of disbursements, as posted to the cash book were not reconciled with the allotment ledger liquidations. As of June 30, 1946, appropriation 1164002.001 expenditures were reported to War Shipping Administration (based on cash book) as \$31,033,826 whereas the allotment ledger (posted from Form F-1 reports) shows total liquidations of \$33,264,442.38. The difference may arise from duplicate stores accounts in the allotment ledger.



6. Conclusions

The accounting records were inadequate and very poorly kept. No satisfactory procedure for recording financial transactions was devised until July 1, 1946. Certain aspects, such as accounting for miscellaneous receipts, which contain the potentialities of substantial losses to the Government were entirely uncontrolled. The extent to which they resulted from inexperienced accounting personnel cannot be determined.

FREDERICK N. JONES.

SEPTEMBER 18, 1946.

EXHIBIT 1

Appropriation symbol cash accounts not reconciled as of Sept. 9, 1946

Appropriation	Symbol	Description
11X0521.....	891-804	Marine and war-risk insurance fund.
11X0523.....	207-960	Maritime training fund.
11X0523.....	207-961	Maritime training fund, New York.
1130523.....	207-960	Maritime training fund, District of Columbia.
1130523.....	207-961	Maritime training fund, New York.
1130523.....	207-962	Maritime training fund, San Francisco.
1130523.....	207-963	Maritime training fund, Los Angeles.
1130523.....	207-964	Maritime training fund, Atlanta.
1130523.....	207-965	Maritime training fund, Boston.
1130523.....	207-966	Maritime training fund, New Orleans.
1130522.....	207-960	State marine schools.
11F5859.....	891-650	Training organization (Treasury reports balance of \$8,617.48).
11F5859.....	891-652	Victory tax withheld, New York.
11F5859.....	891-662	Victory tax withheld, San Francisco.
11F5859.....	891-664	Victory tax withheld, New Orleans.
11F5850.....	891-700	Training organization (Treasury reports balance of \$2,793.70).
11F5850.....	891-712	War Savings bonds, San Francisco.
11F5850.....	891-714	War Savings bonds, New Orleans.
11F5859.....	891-651	Collections, Boston (Treasury reports balance of \$5,542.07).
11F5859.....	891-656	Collections, Atlanta (Treasury reports balance of \$4,779.74).
11F5859.....	891-665	Collections, Los Angeles (Treasury reports balance of \$6,176.34).

EXHIBIT 3

UNITED STATES MARITIME COMMISSION,  
REGIONAL CONSTRUCTION OFFICE,  
Oakland, Calif., November 2, 1944.

GENERAL ACCOUNTING OFFICE,  
Audit Division, Washington, D. C.

Attention: G. S. Ceras, Principal Accounts Auditor.

Subject: USMC Emeryville Warehouse.

Reference: (a) GAO letter dated August 23, 1944, to C. W. Flesher, West Coast Regional Construction Office, U. S. Maritime Commission.

Enclosure: (A) Inventory Certificate forwarded by reference (a).

GENTLEMAN: By reference (a) you requested that we forward enclosure (A), stating the Inventory of the USMC Emeryville Ware-



**REMITTANCE MANIFEST**  
**UNITED STATES**  
**MARITIME COMMISSION**  
**DIVISION OF FINANCE**

DISTRICT

HOME OFFICE DATA	
NO. <b>63-113</b>	
DATE <b>7/13</b>	
REFERENCE	
DISTRICT OFFICE DATA	
NO.	
DATE	
REFERENCE	

DEBTOR

**American Hoist & Derrick Company**

ADDRESS

DATE OF CHECK

TO ALL

AMOUNT

**6/3/43**

New York Bank Draft No. 191790 drawn on First National Bank, New York City, representing final payment under Renegotiation Contract MCo-13729, PA26-3, covering excessive profits in the amount of \$4,996,726.78 for the fiscal year ending November 30, 1942, in connection with certain contracts and sub-contracts to furnish articles in furtherance of the war effort destined for use of the Maritime Commission and the War, Navy and Treasury Departments.

**\$2,246,726.78**

**\$2,246,726.78**

**63-451**

APPROVED

**DISTRIBUTION**

CONTROL ACCOUNTS

INVESTMENT ACCOUNTS

DEBIT

CREDIT

101

871

504

215

2/c

**2,246,726.78**

**2,246,726.78**

101

**2,246,726.78**

**2,246,726.78**

165

*Renegotiation Contract*

20

**2,246,726.78**

165

3

**2,246,726.78**

DISTRIBUTION APPROVED

ORIGINAL - TO ACCOUNTING SECTION WASHINGTON





UNITED STATES MARITIME COMMISSION  
WASHINGTON, D. C.  
INVOICE

DELTA SHIPBUILDING CO., INC.  
NEW ORLEANS, LA.

43451

PAYABLE AT: DIVISION OF FINANCE, U. S. MARITIME COMMISSION-WASHINGTON, D. C.

165.3

MATERIAL SHIPPED BY R. J. TRICON CO.,  
NEW ORLEANS, LA. FROM ATLANTA, GA.  
11-9-42. PURCHASE ORDER P-2041

50,190 FT. 3/4" X 3 BRAID AIR HOSE-  
SPEC. ZZ-H-496 @ \$14. PER C FT.  
LESS 2% CASH DISCT.

7026.60

140.53

6886.07

6910200

105  
ACCOUNTS  
RECEIVABLE

.20  
MTL. ALLOC. TO HIGGINS  
SHIPPED TO OTHER OS.  
YOU. NO. 43-101697

6886.07

W. U. KIRSCH, CHIEF, BUDGET AND ALLOWANCE SECTION





UN 30

S' N

POSTING COPY

2

WASHINGTON, D. C.

INVOICE

TO:

AMERICAN POST & SUPPLY CO.

DATE AUG 5 1943

INVOICE NO. 644- 212

DUE DATE

PAID AT:

ACCOUNTING FIELD OFFICE

100.0

MISC.

AMOUNT

5/3/43 THE TOPS BANK DRAFT NO. 191790 DRAWN ON  
FIRST NATIONAL BANK, NEW YORK CITY, REPRESENTING  
FEDERAL PAYMENT UNDER DEFENSE ACTING CONTRACT MCC-  
1474, PAGE 3, DUE TO THE U.S. GOVERNMENT IN THE  
AMOUNT OF \$2,248,726.73. THE DRAFT IS  
PAID TO THE ORDER OF THE U.S. GOVERNMENT.  
AMOUNT OF \$2,248,726.73. THE DRAFT IS  
PAID TO THE ORDER OF THE U.S. GOVERNMENT.  
V. M. 643-2119

\$2,248,726.73

\$2,248,726.73

W. M. KIRCH, CHIEF, BUDGET & ACCOUNTS SECTION





## SUBSIDIARY LEDGER

101

## AVAILABLE FUNDS ON DEPOSIT U S TREASURY

## MEMORANDUM ONLY

891-804 Collection Account  
694276 c. Receipts

DATE OF ENTRY	DOCUMENT NO.	DESCRIPTION	DEBITS	CREDITS	NEW BALANCE
NV	42 RM43-	624, 550, 563	1,500,000.00	1,500,000.00	0
DEC	42 RM43-	771, 841, 868, 869	1,482,256.02		1,482,256.02
DEC	42 RM43-	771, 841, 868, 869		1,482,256.02	0
JAN	42 RM43-	819	500,000.00	500,000.00	00
JAN	42 RM43-	914, 922, 938, 964, 978, 1022, 1095	1,749,709.08		0
JAN	42 RM43-			1,749,709.08	0
JAN	42 RM43-	1161, 1162, 1157	685,642.47		685,642.47
JAN	42 RM43-	1157, 1181, 1162		685,642.47	
JAN	42 RM43-	1123, 1124, 1141, 1143	1,706,800.80	1,706,800.80	
JAN	42 RM43-	1261, 1278, 1302, 1303, 1309-1310, 1314, 1328	828,216.46		828,216.46
JAN	42 RM43-			828,216.46	0
JAN	42 RM43-	1466	60,000.00	60,000.00	0
JAN	42 RM43-	1775	254,496.36	254,496.36	00
JAN	42 RM43-	561, 1605, 1631, 1698, 1732, 1733, 1743, 1744, 1746-1758	1,041,001.38		00
JAN	42 RM43-			1,041,001.38	
JAN	42 RM43-	1833, 1844, 1867, 1883, 1905, 1911	939,310.72	939,310.72	
JAN	42 RM43-	1979, 2060, 2061	512,321.46	512,321.46	
JAN	42 RM43-	2075-2094-2128-2129-2143-2152-2161-2163-2184-2250-2251-2252-2256-2298-2310-2311-2312	4,027,778.56	4,027,778.56	
JAN	42 RM43-	2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 2680, 2681, 2682, 2683, 2684, 2685, 2686, 2687, 2688, 2689, 2690, 2691, 2692, 2693, 2694, 2695, 2696, 2697, 2698, 2699, 2700, 2701, 2702, 2703, 2704, 2705, 2706, 2707, 2708, 2709, 2710, 2711, 2712, 2713, 2714, 2715, 2716, 2717, 2718, 2719, 2720, 2721, 2722, 2723, 2724, 2725, 2726, 2727, 2728, 2729, 2730, 2731, 2732, 2733, 2734, 2735, 2736, 2737, 2738, 2739, 2740, 2741, 2742, 2743, 2744, 2745, 2746, 2747, 2748, 2749, 2750, 2751, 2752, 2753, 2754, 2755, 2756, 2757, 2758, 2759, 2760, 2761, 2762, 2763, 2764, 2765, 2766, 2767, 2768, 2769, 2770, 2771, 2772, 2773, 2774, 2775, 2776, 2777, 2778, 2779, 2780, 2781, 2782, 2783, 2784, 2785, 2786, 2787, 2788, 2789, 2790, 2791, 2792, 2793, 2794, 2795, 2796, 2797, 2798, 2799, 2800, 2801, 2802, 2803, 2804, 2805, 2806, 2807, 2808, 2809, 2810, 2811, 2812, 2813, 2814, 2815, 2816, 2817, 2818, 2819, 2820, 2821, 2822, 2823, 2824, 2825, 2826, 2827, 2828, 2829, 2830, 2831, 2832, 2833, 2834, 2835, 2836, 2837, 2838, 2839, 2840, 2841, 2842, 2843, 2844, 2845, 2846, 2847, 2848, 2849, 2850, 2851, 2852, 2853, 2854, 2855, 2856, 2857, 2858, 2859, 2860, 2861, 2862, 2863, 2864, 2865, 2866, 2867, 2868, 2869, 2870, 2871, 2872, 2873, 2874, 2875, 2876, 2877, 2878, 2879, 2880, 2881, 2882, 2883, 2884, 2885, 2886, 2887, 2888, 2889, 2890, 2891, 2892, 2893, 2894, 2895, 2896, 2897, 2898, 2899, 2900, 2901, 2902, 2903, 2904, 2905, 2906, 2907, 2908, 2909, 2910, 2911, 2912, 2913, 2914, 2915, 2916, 2917, 2918, 2919, 2920, 2921, 2922, 2923, 2924, 2925, 2926, 2927, 2928, 2929, 2930, 2931, 2932, 2933, 2934, 2935, 2936, 2937, 2938, 2939, 2940, 2941, 2942, 2943, 2944, 2945, 2946, 2947, 2948, 2949, 2950, 2951, 2952, 2953, 2954, 2955, 2956, 2957, 2958, 2959, 2960, 2961, 2962, 2963, 2964, 2965, 2966, 2967, 2968, 2969, 2970, 2971, 2972, 2973, 2974, 2975, 2976, 2977, 2978, 2979, 2980, 2981, 2982, 2983, 2984, 2985, 2986, 2987, 2988, 2989, 2990, 2991, 2992, 2993, 2994, 2995, 2996, 2997, 2998, 2999, 3000	2,459,753.71	2,459,753.71	
JAN	42 RM43-	643, 46, 63, 67, 78, 79, 750, 51, 53	3,496,683.07	3,496,683.07	00
JAN	42 RM43-	754, 49, 50, 832, 51, 83, 834, 22, 94, 27, 20, 21, 22, 946, 60, 61, 62, 63			
JAN	42 RM43-	60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300			

UNITED STATES MARITIME COMMISSION

DIVISION OF FINANCE





# SUBSIDIARY LEDGER

## ACCOUNTS RECEIVABLE

Account No. 155.8  
Misc. Sub-accounts  
Location  
Fund  
Voucher or Check

American Hoist & Derrick Co.  
Renegotiation Contract

DATE OF ENTRY	DOCUMENT NO.	DESCRIPTION	DEBITS	CREDITS	BALANCE
		PMT EXCESS PROFITS	1,000,000.00	1,000,000.00	0
		REF EXCESS PROFITS FY 11-30-42		3021.85	3021.85
		PMT OF 3RD & 4TH INSTALLMENTS- EXCESSIVE PROFITS	1,250,000.00	1,250,000.00	
		PAYT ADJUSTMENT BETWEEN ACTUAL & ESTIMATED SETTLEMENT UNDER RENEGOTIATION CONTR 10/8/42	77,206.91	77,206.91	
		RENEGOTIATION OF CONTR. DATED 10/20/42	500,000.00		578.15
		RENEGOTIATION OF CONTRACT		500,000.00	3021.85
		FINAL PAYMENT MCC CONTR 13729 PMT EXCESS PROFITS		2,245,726.78	2,245,726.78
		RM-643-2129	2,245,726.78		3021.85
		INIT PAYT COVERING EXCESS PROFITS RENEG CONTR MCC17842 PASS-94 7-28-43	1,000,000.00	1,000,000.00	3021.85
		RM43-1081		3021.85	0
		INSTALL. #1 EXCESS PROF- CONTR. MCC 17842 PASS-94	1,000,000.00		1,000,000.00
		INSTALL #2 10/1/43 EXCESS PROFITS RENEG CONTR MCC-17,842 PASS-94	1,000,000.00		00
		EXCESS PROFITS RM C-597	1,000,000.00		1,000,000.00
		EXCESS PROFITS INSTALL #3 12/20/43 RE CON MCC-23674 PASS 94	1,351,000.00		2,351,000.00
		PMT OF INV44-1278		351,000.00	1,000,000.00
		INIT PAYT EXCESS PROFITS 11/30/ 43 RENEG CONTR MCC-23674 PASS- 310		142,000.00	851,000.00
		PAYT REQD ON RM44-3517	142,000.00		1,000,000.00
		INSTALL. #2 MCC-23674 PASS 310	1,000,000.00		2,000,000.00
		ADJ INV 936		1,000,000.00	1,000,000.00
		EXCESS PROFITS		500,000.00	
		FINAL PMT. EXCESS PROFITS MCC- 23674 PASS-310	500,000.00		500,000.00
		PMT INV 1144		500,000.00	

UNITED STATES MARITIME COMMISSION  
Division of Finance







house, Emeryville, California, as of June 30, 1943. The following method was used to arrive at the Inventory of Commission-owned materials stored in the Emeryville Warehouse as of June 30, 1943.

A total was made of all receipts and deliveries during the period of June 30, 1943, to October 1, 1943. By adding deliveries and subtracting receipts from the actual Commission Inventory taken as of October 1, 1943, the Inventory as of June 30, 1943, was determined to be \$2,663,421.21.

October 1, 1943, Inventory	\$2, 991, 774. 91
Deliveries June 30, to October 1, 1943	277, 144. 93
	<hr/>
	3, 268, 919. 84
	605, 498. 63
	<hr/>
	2, 663, 421. 21

Due to emergency conditions existing on the West Coast upon establishment of the Regional Office in April 1942, it was necessary for the Commission to obtain immediate warehouse space for the storage of shipbuilding materials not required at the Seattle-Tacoma shipyard at Tacoma, Washington. The urgent need of aircraft carriers resulted in the conversion of thirty-four C3-S-A1 vessels under construction at this Yard.

Transfer of the cargo-vessel construction to the Navy for completion as aircraft carriers resulted in an enormous amount of surplus shipbuilding material which had to be removed promptly from the Seattle-Tacoma Shipbuilding Corporation in order that there would be no delay in the construction of the carriers. The USMC Emeryville Warehouse was acquired for this distinct purpose and the first material was received on June 30, 1942.

The necessity for prompt removal of materials prevented Seattle-Tacoma from shipping complete assemblies in an orderly manner. It was recognized at the time that it was practically impossible to obtain the Commission's cost prices for the items in order that Property Removal Notices could be prepared, transferring the materials from the account of the contracts at Seattle-Tacoma Shipbuilding Corporation to the USMC Emeryville Warehouse. As a result, the material was received and recorded on a commodity basis without a dollar-value inventory.

Reallocation of material out of the Emeryville Warehouse to other Commission Contracts was handled in the same manner and billings were effected by Property Removal Notice after the cost price of the material had been determined and the Property Removal Notice covering the incoming shipment had been received. In this manner, a very close control of the incoming and outgoing shipments was maintained on a commodity basis and discrepancies between material as received from Seattle-Tacoma as against Packing List quantities were adjusted between the Commission and Seattle-Tacoma prior to the issuance of the Property Removal Notice.

From the accounting standpoint, the material in the Emeryville Warehouse remained charged to Seattle-Tacoma contracts until receipt of material at Emeryville was acknowledged by signature of the Warehouse Superintendent on the Property Removal Notice.

At the present time there are still many Property Removal Notices outstanding which are being completed as rapidly as possible. However, until all Property Removal Notices have been completed to our



satisfaction, it is impossible to determine the exact dollar-value inventory of the material in the Emeryville Warehouse as of any date prior to the Actual Inventory taken by the Procurement Division on October 1, 1943. Therefore, it was necessary for us to arrive at the Inventory as of June 30, 1943, in the above manner and any adjustments which are made to the October 1, 1943, Inventory should necessarily be reflected in the Inventory as of June 30, 1943.

Very truly yours,

C. W. FLESHER, *Director.*

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EXHIBIT 5

UNITED STATES MARITIME COMMISSION

DIVISION OF FINANCE—ACCOUNTING SECTION

CHART OF ACCOUNTS

To: Head, Budget and Statement Unit.

Head, Review and Coding Unit.

Head, Bookkeeping Unit.

From: Chief, Accounting Section.

Subject: Procedure to be followed in Coding Bethlehem Repair Vouchers.

On April 1, 1941, the Bethlehem Steel Co. entered into a number of contracts with the Commission to provide for the making of repairs, alterations, and/or conversions of such vessels as might be ordered to the various yards of the company during the respective terms of the contracts.

It was stipulated in the agreements that the company was to realize a profit of 10 percent of cost before interest and taxes.

It has since developed, however, that on contracts completed to March 31, 1942, the company has realized a profit of \$2,588,008 in excess of the 10 percent of cost authorized in the agreements, and as a result thereof, on June 12, 1942, the company proposed to refund the aforementioned excess profits to the Commission.

The proposal provides for a 10 percent deduction to be allowed on all Bethlehem steel repair vouchers (submitted subsequent to acceptance by the Commission of the proposal), until such time when the accumulated total of the deductions so taken shall equal \$2,588,008 or the amount which the company desires to refund.

The company further proposed a revised billing rate "per payable hour" for the second quarter of 1942 on work to be performed and retroactively to all work performed prior to April 1, 1942, on vessels which were incomplete as at the same date.

The company's proposal was accepted by the Commission on July 2, 1942.

For the purpose of coding Bethlehem Steel repair vouchers where a 10-percent deduction is made in accordance with the above effective immediately, the following procedure will be employed:

The gross amount of repair charges to vessels will be debited by vessel and period to the proper expense account, and gross credits covering adjustments of labor billings on repair invoices previously



UNITED STATES MARITIME COMMISSION  
WASHINGTON, D.C.

FORM NO. 1007

## INVOICE

TO:

U. S. NAVY DEPARTMENT,  
ATTN: MR KUKUK  
ROOM 4-2413 NAVY BUILDING,  
WASHINGTON D.C.

DATE

JAN 27 1943

INVOICE NO.

C-43

FSS

DUE DATE

PAYABLE AT: DIVISION OF FINANCE- U. S. MARITIME COMMISSION-WASHINGTON D.C.  
165.2 MISC

AMOUNT

MC HULL-233; BUILDERS HULL-17ADVANCE OF FUNDS TO COVER THE ESTIMATED CON-  
STRUCTION COST TO THE COMMISSION OF THE ABOVE  
HULL (NAVY REFERENCE BAYG-6) WHICH WAS DELIVERED  
TO YOU INCOMPLETE AT THE SEATTLE-TACOMA SHIP-  
BUILDING CORPORATION.

\$2,475,000.00

COLLECTION FOR: 691/35900!001 WORKING FUND,  
U. S. MARITIME COMMISSION,  
1941-1943*Included in 1652  
some of the  
1652  
1652*

DEBIT

CREDIT

BVS  
BUDGET  
ITEMS  
JANUARY 1943U. S. NAVY DEPARTMENT  
WORKING FUND  
MC HULL-233

\$2,475,000.00

WM. U. KIRSCH, CHIEF, BUDGET &amp; ACCOUNTS SECTION





# CREDIT MEMORANDUM

TO: U. S. Navy Department

DATE

C.M. NO. C44 - 37

AMOUNT - \$2,475,000.00

1943

1943

AMOUNT

PER ORDER OF THE SECRETARY

Re order invoice 643-645 dated January 20, 1943. By

arrangement made with the date of the invoice, this

to the above vessel is not to be transferred to the Navy.

Per British Acquisition 662-42, this vessel is to be de-

livered to the British under arrangements similar in nature

to those for the S.S. ARDOR, DASHED, AVENGER, and BITER.

\$2,475,000.00

CONTROL ACCOUNT

LEAD ACCOUNT

DEBIT

CREDIT

673

Suspense Items

U. S. Navy Department

Working Fund

MC Hall - 333

(Cancel Inv. 643-659)

\$2,475,000.00





rendered and paid will be credited by vessel and period to the appropriate expense accounts on the books of the War Shipping Administration. The 10 percent deduction from vouchers will be credited to account 550, reserve for Bethlehem Steel Co. adjustments. In cases where a charge for repairs or credit for labor adjustment billings is applicable to the working fund 11X5905.001, the charge or credit in coding the voucher will be to account 565. The coding auditor, in preparing Form 1080, will debit account 116, cash in transit, and note a request (to be attached to Form 1080) to the Disbursing Section, to type on schedule 1081, that account 116, is to be credited.

In instances where a charge for repairs or credit for labor adjustment billings is applicable to WSA-DA appropriation 111/50027(05), the charge or credit in coding the voucher will be to account 042. In preparing Form 1080, the coding auditor will debit the proper expense account on the WSA-DA books, and note a request to the Disbursing Section, to type on schedule 1081, that account 042 is to be credited.

The following examples and solutions in connection with the above are offered for instruction and guidance of Accounting Section personnel:

	Repairs	NavDof	Total
EXAMPLE NO. 1			
Charges: S. S. <i>Unicoi</i> .....	\$69,913.50	\$67,054.36	\$136,977.86
Credits: Various vessels.....	10,640.48	41,090.48	51,730.96
			85,246.90
10-percent deduction from gross voucher (\$136,977.86).....			13,697.79
Net voucher disbursed from 11X0520.....			71,549.11
EXAMPLE NO. 2			
Charges: S. S. <i>Darkington</i> (DA vessel).....			175,000.00
Credits: Various vessels.....	40,000.00	20,000.00	60,000.00
			115,000.00
10-percent deduction from gross voucher (\$175,000).....			17,500.00
Net voucher disbursed from 11X0520.....			97,500.00
EXAMPLE NO. 3			
Charges: S. S. <i>Mariner</i> (DA vessel).....			1,000.00
10-percent deduction from gross voucher.....			100.00
Net voucher disbursed from 111/30027(05).....			900.00
EXAMPLE NO. 4			
Charges: S. S. <i>Pipestone</i> .....	200.00	400.00	600.00
10-percent deduction from gross vouchers.....			60.00
Net voucher of which \$180 disbursed from 11X0520 and \$360 disbursed from 11X5905.001.....			540.00

## SOLUTION TO EXAMPLES

Document	Account	Books	Debit	Credit	Debit	Credit
EXAMPLE NO. 1						
Voucher.....	801	WSA.....			\$39,273.02	
			\$69,913.50	\$10,640.48		
	566	WSA.....			25,973.88	
			67,064.36	41,090.48		
	550	WSA.....				\$13,697.79
	439	WSA.....				71,549.11
Form 1080.....	116	WSA.....			25,973.88	
	439	WSA.....				25,973.88
Form 1081.....	439	WSA.....			25,973.88	
	Cash	11X5905.001				25,973.88
M. R. M.....	Cash	11X0520			25,973.88	
	116	WSA.....				25,973.88
EXAMPLE NO. 2						
Voucher.....	042	WSA.....			175,000.00	
	801	WSA.....				40,000.00
	566	WSA.....				20,000.00
	550	WSA.....				17,500.00
	439	WSA.....				97,500.00
Form 1080.....	116	WSA.....			20,000.00	
	439	WSA.....				20,000.00
Form 1081.....	439	WSA.....			20,000.00	
	Cash	11X0520				20,000.00
M. R. M.....	Cash	11X5905.001			20,000.00	
	116	WSA.....				20,000.00
Form 1080.....	806	WSA-DA.....			175,000.00	
	439	WSA-DA.....				175,000.00
Form 1081.....	439	WSA-DA.....			175,000.00	
	Cash	11/30027 (06)				175,000.00
M. R. M.....	Cash	11X0520			175,000.00	
	042	WSA.....				175,000.00
EXAMPLE NO. 3						
Voucher.....	806	WSA-DA.....			1,000.00	
	042	WSA-DA.....				100.00
	439	WSA-DA.....				900.00
Form 1080.....	042	WSA-DA.....			100.00	
	439	WSA-DA.....				100.00
Form 1081.....	439	WSA-DA.....			100.00	
	Cash	111/30027 (05)				100.00
M. R. M.....	Cash	11X0520			100.00	
	550	WSA.....				100.00
EXAMPLE NO. 4						
Voucher.....	801	WSA.....			200.00	
	566	WSA.....			400.00	
	550	WSA.....				60.00
	439	WSA.....				540.00
Form 1080.....	116	WSA.....			40.00	
	439	WSA.....				40.00
Form 1081.....	439	WSA.....			40.00	
	Cash	11X5905.001				40.00
M. R. M.....	Cash	11X0520			40.00	
	116	WSA.....				40.00

At such time when the company has refunded the full amount of the excess profits in the manner described above as reflected by the balance in account 550, an accounting distribution will be made, miscellaneous journal vouchers and forms 1080 prepared to credit the appropriate expense accounts and to reimburse the proper appropriations.

WM. U. KIRSCH,  
Chief, Accounting Section, Division of Finance.

August 25, 1942.



366

Paul F. Zenger, Inc.

Chas. C. Knight, 134 E. Fourth Street, Pitts., Pa.

Race Trunkers Inc.

• •

12:01 PM 12/11/2011

[illegible]

printed on the inside of the set of letters in the following manner:

9.577

1511

14572.

~~493,350. 450.~~

770-444

246.925. 25.

1

10.01.85

740-735

1999

**Abstract**

Apr 11 5, 1942

Values in accordance

Page 1 of 52

"arranged that interest insured is in good safety in a port at day and hour of attachment of risk."

weight rate - reasonable





UNITED STATES GOVERNMENT  
WASHINGTON, D. C.  
CREDIT MEMORANDUM

ACCOUNTING FILE

TO: *For shipping and/or*  
*Pennington Shipping Co*  
*(Philadelphia, Pa. 19104)*

DATE

C. M. NO.

*10/10/41*

*Jan 11 1942*

3856

153

AMOUNT

*For shipping and/or Pen shipping*  
*Mar Risk Haul Policy 366-End #1*  
*Sp. Goldblatt*

*In cash per - rate portion of invoice*  
*W.S.A. 40 1st per endorsement number 1*

*No return premium due as assured paid*  
*the full amount*

14,815.50

CREDIT

513

73 82

*Mar Risk*  
*Insurance*  
*Reserve*

*Pennington Shipping*  
*Sp. Goldblatt*  
*12-10-41 Policy 366*  
*End #1*

14,815.50

*Posting transferred to*  
*all due to 10/10/41*

14/11/41

*Approved for release by the Director of the Bureau of the Census*  
*10/10/41*  
*Director*

*It is recommended that the Bureau of the Census be authorized to release the information contained in this memorandum to the Bureau of the Census for its use in the preparation of its reports.*  
*10/10/41, 10/10/41, 10/10/41*  
*10/10/41, 10/10/41, 10/10/41*

*It is recommended that the Bureau of the Census be authorized to release the information contained in this memorandum to the Bureau of the Census for its use in the preparation of its reports.*  
*10/10/41, 10/10/41, 10/10/41*

*It is recommended that the Bureau of the Census be authorized to release the information contained in this memorandum to the Bureau of the Census for its use in the preparation of its reports.*  
*10/10/41, 10/10/41, 10/10/41*

*It is recommended that the Bureau of the Census be authorized to release the information contained in this memorandum to the Bureau of the Census for its use in the preparation of its reports.*  
*10/10/41, 10/10/41, 10/10/41*





38-1

## EXPERIMENTAL PROCEDURE

[illegible]

Q/A: Is white, 10 mm x 10 mm, 1000000, 10.

*(continued)*

ALLAHABAD 12461 MAR 27 1962

Midnight, April 20, 1942

and North-east of South America not beyond the straits."

10,671	1919	Doc, 129.
533,550. @ .50.	pro rata	
266,775. @ .25.	6	48,017.50
800,325.		

SELECTED REFERENCES

110124

April 2, 1942

Values Accordance

General Order # 53

"warranted that interest insured is in good safety in a port at day and hour of attachment of risk.

1900-1901

Enclosure # 1 to be attached to File No. 16-2

[illegible]

In consideration of a return provision (new rule) of EPL, 180,000, it is hereby made known and agreed that the instruction under this order shall be amended as of 12:00 P.M., 12.4.72, and EPL, 180,000.

February 10, 1913, 13.15.

It is understood that all other letters and mail will be sent as usual.

1992

Table 1. *Leptothorax* and *Aplocheilichthys* species in the  
Yangtze River and its tributaries

ALL OF MEMO. 3/26/45





CREDIT MEMORANDUM

To: *Grace Landlord Inc. and/or  
Pennsylvania Shipping Co.*

DATE

C. M. NO. *10091*

*3903*

ACCOUNTING PURPOSE ONLY

653 DESCRIPTION	AMOUNT
<i>S/S Dilworth War Risk Hull Policy 366-r Surf. # 1</i>	
<i>It cancel pro-rata portion of income WSA 42-751 - and pro-rata portion (#1)</i>	
<i>For return premium due and amount paid the net amount.</i>	<i>14,405.15</i>

Return & War Risk Insurance  
Fund-Appra. - 11/1/44

ACCOUNT/AMOUNT	DETAIL ACCOUNT	DEBIT	CREDIT
<i>573 War Risk Insurance Premium Paid</i>	<i>573-42-1 Grace Landlord Inc. and/or Pennsylvania Shipping Co. War Risk Hull Policy 366-r Surf. # 1 Posting Quarter 4/1/44 to 6-30/44</i>	<i>14,405.15</i>	





## AIR 801/1 IM3 ADMINISTRATION

020

FROM SHEET 4

CT PH 1	714.12	AN 30 44	21,627.03
CT NOR 2	5713.10 -	AN 30 44	22,341.41
V 3364	15.00	AN 30 44	31,054.59
V 3363	78.50		
V 3362	28.20		
V 1213	34.40		
V 1214	25.90		
V 1215	64.10		
V 1216	102.50	AN 30 44	30,705.89
CT NOR 3	849.64 -		
CT PH 3	197.20 -		
CT PH 2	1,786.52 -		
CT MC M 1	503.31 -		
CT SF 12	4,307.30 -	AN 30 44	38,349.86
CT NOR 5	3,362.50 -		
CT SF 9	2,284.89 -		
CT SF 11	1,336.06 -		
CT NOR 4	4,290.31 -	AN 30 44	49,623.62
CT NOR	5,400.09 -		
CT SF	64.96		
CT SF	50.58		
CT N O	8.46		
CT NOR	557.92 -		
CT SA	5.58 -		
CT SEA	2.22 -		
CT SA	4,190.19 -		
CT N Y	1,575.14	AN 30 44	58,030.48
CT NY	23.70	AN 30 44	58,056.78
PRN NY	75.50 -	AN 30 44	58,132.38
PRN	195.00 -	AN 30 44	58,327.38
PRN NY	112.50 -	AN 30 44	58,439.88
V SF 1002	61.50		
V SF 999	32.00		
V SF 701	40.00		
V SF 789	36.00		
V SF 790	29.15		
V SF 791	25.00		
V SF 792	45.00		
V SF 788	123.00	AN 30 44	58,048.23
V 941	73.95		
V 1003	70.00	AN 30 44	57,304.2
V 4646	10.40		
V 666	110.80	AN 30 44	57,735.03
JV 44 1542	80.04	AN 30 44	57,763.4
JV 44 1624	3.24	AN 30 44	57,766.64
JV 44 1854	54.08	AN 30 44	57,820.72
PEN 6 44	134.59 -	AN 30 44	57,955.31
CT NOR	884.92 -	AN 30 44	58,840.23
CT SF 44	7,000,000.165.68 -	AN 31 44	7,000,058,830.91
CT SF 44	7,000,000.165.68 -		
CT SF 44	7,000,000.165.68 -		
CT SF 44	7,000,000.165.68 -		
CT SF 44	2,700,000.165.68 -	AN 31 44	2,700,058,830.91





# WAR SHIPPING ADMINISTRATION

SHEET 48

085

SAL F. 085ET 6

REVERSE  
REVERSE  
REVERSE

CT SF 44  
CT SF 44  
CT SF 44  
CT SF 44

1398,000.165.68  
700,000.165.68 -  
2,700,000.165.68  
165.68 -

AM 11 44 2,700,000.165.68

TO CORRECT BALANCE

REV

CT SF 43  
CT SF43  
CT SF43  
CT SA44

9,144.75  
9,144.75 -  
1.89  
.07

AM 30 44  
AM 30 44  
AM 30 44  
AM 30 44

CT PURW  
CT NY 44

71.92 -  
4.14 -

AM 30 44  
AM 30 44

DT NY 12 44

7,769.04 -

AM 30 44

DT SP 4 44

6.41 -

AM 30 44

DT PURW 5

15.67 -

AM 30 44

JV 44 2007

354.90

AM 30 44

DT PH 4 44

794.59 -

AM 30 44

DTSF T2 44

5,120.44 -

AM 30 44

DT NY 13 44

11,399.51 -

AM 30 44

V 4659

16.95

AM 30 44

DTSA4 SF44 3069 3159&3160 JV6 2013

55.34

AM 30 44

CT WSA SF 45 9

JV 44 6 2125

.07

AM 30 44

XXXXXXXXXXXXXXXXXXXX

DT KEXSE NOR 644

67.20 -

AM 31 44

CT WSA SF 6 44

V 46 1032

262.42 -

AM 31 44

JV6 2144

495.50

AM 31 44

JV 44-6 2274

11.00

AM 30 44

JV 44 6 2163

3.08

AM 30 44

R DAUGHTY SONS CO

V 5027

27.41

R DAUGHTY SONS CO

V 5028

26.70

" " "

V 5029

32.58

" " "

V 5031

32.58

WSC TRANSFER & STORAGE

V 5829

1,235.75

WSC TRANSFER & STORAGE

V 5830

1,714.22

WSC TRANSFER & STORAGE

V 5831

1,526.20

WSC TRANSFER & STORAGE

V 5832

326.25

EASTERN TRANSFER CO

V 4925

17.90

" " "

V 4924

19.95

" " "

V 4923

18.34

L CAMPBELL AUTO TUNING

V 4917

26.25

AM 30 44

MITCHELL BROS. TRUCK LINES

V SF 45 1446

128.38

AM 30 44

INV 44 6 18306

3.80 -

AM 30 44

TO CORRECT BALANCE

INV 44 9361 VO 44 42348 INV 44 6 9680A

1.87

AM 30 44

V HO 45 8284

62.16

V HO 45 8618

24.19

AM 30 44

JV 44 6 2359

42.00

AM 30 44

S S CARTER BRAXTON

V 45 3212

27.65

AM 30 44

V 45 4569

2,992.37

AM 30 44





BAL FWD FROM SHEET 11

	JV 44 6 4068	69.00	JAN 30 44	
	JV 4080	98.60	JAN 30 44	
TRANS	JV6 4155	425.00	JAN 30 44	
FREIGHT	JV 44 6 4098	98.60	JAN 30 44	
ALASKA SS CO SEATTLE WASH. ONE				
US TREASURY NOTE AT 3 1/2 PER CENT				
INTER. DATED MAR 15 1940 DUE MAR				
15 1945 XTQA-1945 SERIES 3490 TO TREASURY				
SEPT. 3 1942				
	JV6 4148	100,000.00		
ALASKA TRANS. CO SEATTLE WASH FIVE				
US TREASURY NOTES AT 3 1/2 PER CENT				
INTER. DATED DEC 18 1940 DUE DEC 15 1945				
HAVING DEC 15 1942 AND S C A B-1945				
SERIES 11495				
	JV6 4148	10,000.00		
B 1945 SERIES 11496				
	JV6 4148	10,000.00		
" 1945 " 11497				
	JV6 4148	10,000.00		
" " " 11498				
	JV6 4148	10,000.00		
" " " 11550				
	JV6 4148	10,000.00		
TOTREASURY SEPT 3 1942				
AMERICAN SO AFRICAN LINES INC 26				
BEAVER ST NY NY FIVE US TREASURY				
NOTES 1 1/2 PER CENT DATED JUNE 5				
1942 DUE DEC 15 1946 HAVING DEC 15				
1942 AND S C A				
B 1946 SERIES 22121				
	JV6 4148	10,000.00		
" 1946 " 22122				
	JV6 4148	10,000.00		
" " " 22123				
	JV6 4148	10,000.00		
" " " 22124				
	JV6 4148	10,000.00		
" " " 22125				
	JV6 4148	10,000.00		
TO TREASURY NOV 6 1942				
AMER SO AFRICAN LINES INC FIVE				
1 3/4 PERCENT TREASURY BONDS				
DATED DEC 1 1942 DUE JUNE 15 1948				
JUNE 15 1944 AND SQA				
8570				
	JV6 4148	10,000.00		
8508				
	JV6 4148	10,000.00		
8509				
	JV6 4148	10,000.00		
8510				
	JV6 4148	10,000.00		
8511				
	JV6 4148	10,000.00		
TO TREASURY DEC 30 1943				
B.L. SHIPPING CO INC 402 LEXINGTON				
AVE NY NY FIVE US TREASURY NOTES				
3 1/2 PERCENT DATED DEC 18 1940 DUE DEC 15 1945				
HAVING DEC 15 1942 & SQA				
B 1945 SERIES 22714				
	JV6 4148	10,000.00		
" 1945 " 22715				
	JV6 4148	10,000.00		
" 1945 SERIES 22716				
	JV6 4148	10,000.00		
" " SERIES 22717				
	JV6 4148	10,000.00		
" " " 22718				
	JV6 4148	10,000.00	JAN 30 44	248,959.00















## EXHIBIT 8

COMPTROLLER GENERAL OF THE UNITED STATES,

*Washington 25, March 1, 1946.*

Capt. EDWARD MACAULEY,

*Acting Chairman, United States Maritime Commission,  
Washington, D. C.*

MY DEAR CAPTAIN MACAULEY: Reference is made to your letter of February 8, 1946, addressed to the Honorable Richard B. Wigglesworth, House of Representatives, in which you state, in part:

"It is the determined purpose of the Commission, as now constituted to institute a system of accounting which will be entirely acceptable to the Comptroller General. Effective with their appointments yesterday Messrs. Slattery and Quinn, as Director of Finance for Construction and Director of Finance for Operations, respectively, to whom have been delegated the duties heretofore under the jurisdiction of Mr. Anderson, have been instructed to cooperate closely with the Comptroller General, as well as with Members of Congress and other governmental officials in carrying out those obligations of the Maritime Commission under their jurisdiction."

It is noted that changes are being made in personnel and possibly in organization relating to the fiscal activities of the Commission.

It is especially noted that the Commission proposes to institute an acceptable system of accounting.

It is believed that past deficiencies in the Commission's accounting and auditing accomplishments have been due in some measure to the lack of clearly defined goals of auditing, accounting, and reporting objectives. It is suggested, therefore, that the Commission, itself, redetermine the fiscal objectives, leaving only operating methods to the discretion of designated supervisory officials.

As the first step in the redetermination of fiscal objectives, it is suggested that the officials who are to be responsible for the accounting, auditing, and budgetary functions be asked to submit to the Commission a joint statement of proposed redetermined fiscal objectives. This statement should include:

(a) The Commission's own need for fiscal services proposed to be rendered. This would include the need for information:

(1) For management:

- (a) Operations.
- (b) Budget.
- (c) Price renegotiation.
- (d) Other purposes.

(2) To comply with law and governmental regulations.

(3) To make reports to the Congress.

(b) The fiscal services that can be rendered most effectively by each of the several major accounting, auditing and budgetary units, respectively.

In preparing the proposed statement of objectives, consultation with interested governmental agencies would be beneficial.

As the second step in the redetermination of objectives the Commission, after due consideration would:

- (a) Appraise the suggestions offered.
- (b) Canvass its known needs.
- (c) Make a final determination of objectives.

(d) Clearly define the respective responsibilities for records and reports of each major fiscal unit and supervising official.

The final objectives as thus determined would not be static, but would be subject to change at any time to meet changing conditions. The major fiscal supervisors would be required to make recommendation to the Commission for changes of objectives, whenever circumstances warrant such action.

After the determination of objectives, as outlined herein, the actual accomplishment thereof should be left to the diligence and technical skill of the designated officials who would be held responsible for the performance of the Commission's requirements.

The over-all benefits to be derived from the suggested procedure for redetermining fiscal objectives may be summarized thus:

(a) All of the Commission's needs would be considered, and these needs would be the determining factor in the work to be required of the several fiscal units.

(b) Readjustment of objectives to meet changing needs would be facilitated and controlled.

(c) Those supervising the work would have definite authorized goals of attainment in view at all times.

(d) Responsibility for accomplishments would be fixed.

(e) Duplication of effort and other purposeless activities would be reduced to a minimum.

(f) All fiscal reports and records would be coordinated.

Respectfully,

(Signed) LINDSAY C. WARREN,  
*Comptroller General of the United States.*

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UNITED STATES MARITIME COMMISSION,  
*Washington 25, D. C., March 12, 1946.*

The Honorable LINDSAY C. WARREN,  
*Comptroller General of the United States.*

MY DEAR MR. WARREN: Reference is made to your letter of March 1, 1946, in which you quoted, in part, my letter of February 8, 1946, to the Honorable Richard B. Wigglesworth, House of Representatives, relative to instituting a system of accounting that will be acceptable to you.

The Commission and its staff are studying your proposals submitted for their consideration, and the suggested over-all benefits to be derived from the suggested procedure for redetermining fiscal objectives. Upon completion of such studies you will be promptly notified.

Sincerely yours,

(Signed) EDWARD MACAULEY,  
*Acting Chairman.*



## EXHIBIT 9

GENERAL ACCOUNTING OFFICE,  
Washington, July 17, 1946.

Audit Division  
In reply please quote  
A-CEB-FAU

Inquiry No. 31.  
Audit WSA.  
Year ended 6/30/44.

Re Boston Operating Co., Boston, Mass. (stevedores). Review of  
1944 and 1943 statements of operations.

Mr. F. E. HICKS, JR.,

*Assistant General Accountant,*

*War Shipping Administration, Washington, D. C.*

In analyzing and reviewing the statements of operations of the  
above stevedore company we find the following:

(a) This company increased its salaries to officers and various other  
accounts for the year 1944 over 1943, so that with recorded salary  
increases, and other increases under the guise of "traveling" etc., the  
management apparently paid itself increased compensation of \$40,000  
to \$50,000 and thereby prevented the recapture of profits of that  
amount.

(b) This company charged 1944 stevedoring costs on work for the  
War Shipping Administration (no WSA timekeepers on the work),  
in amounts which produced a rate of \$5 per ton approximately.

(c) On work for the Army and others (the Army stated as supplying  
timekeepers) the charges for stevedores time produced a rate of \$1.80  
per ton.

The total possible excess appears as follows:

Excess charges on a tonnage basis over the charges to Army 19,350 tons, at \$3.20.....	\$62, 000
Inflated overhead expenses.....	40, 000
Total indicated inflation.....	102, 000

The expense distribution accounts are not exactly uniform but a  
comparison is sufficient to show the arbitrary increases which almost  
in their entirety could have been paid by the management to itself:

	Year 1944	Year 1943	Increase	Percent increase
Salaries, officers.....	\$12, 000	\$4, 160	\$7, 840	-----
Bonuses, officers.....	5, 000	-----	5, 000	300
Traveling and entertainment.....	10, 528	2, 828	7, 700	300
Directors' fees.....	1, 125	-----	1, 125	-----
Gratuities.....	1, 945	-----	1, 945	-----
	30, 598	6, 988	23, 610	-----
Convention and Christmas.....	950	-----	950	-----
Salaries, office.....	7, 627	1, 860	5, 767	300
Auditor.....	1, 725	-----	1, 725	-----
Reserve for damage claims (provision).....	6, 127	-----	6, 127	-----
Superintendent and general foremen.....	15, 286	4, 432	10, 854	300
Timekeepers.....	9, 828	7, 128	2, 700	-----
Miscellaneous.....	422	17, 551	-----	-----
	2, 117	472	10, 982	-----
	3, 706	-----	-----	-----
	796	-----	-----	-----
	79, 182	38, 431	40, 751	-----
Total tonnage handled.....	364, 615 (22 cents)	226, 985 (17 cents)	137, 630	60

This company's records have the appearance of having been grossly manipulated.

The management evidently paid itself \$5,000 to \$6,000 in 1943 and \$40,000 to \$50,000 in 1944. Increased tonnage handled of 60 percent bears no such relation to expense as the increases shown above indicate; for example, the 300-percent increases in office salaries, superintendence, and traveling and entertainment. The rate of such expenses should decrease, not increase, radically. Directors' fees of \$1,125 and gratuities of \$1,945 and Christmas and entertainment of \$950 are alleged by a company whose total capital is \$1,000.

The War Shipping Administration did not have its own timekeepers on the job at this company. The time records were neither signed nor approved. The cost per ton of \$5 for War Shipping Administration work compares with a cost of \$1.80 for Army loading, and War Shipping Administration cost was at a rate nearly three times the Army rate. The rate was in excess of similar companies. (The Pillston Stevedoring Corp. of New York showed a tonnage cost of \$2.56.)

Please advise of the results of your examination of this company.

BEN C. WHITE,  
*Principal Accounts Auditor.*

cc: J. H. Yates.

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### EXHIBIT 10

#### COPY OF INTEROFFICE MEMORANDUM

In reply refer to 5-35  
November 15, 1943

To: Mr. Quinn, Controller.

From: Chief, Budget and Accounts Section.

Subject: Repairs and betterments on requisitioned vessels.

In several instances, title has been requisitioned on several vessels, with no payments having been made to the owners of the vessels pending settlement of "just compensation."

In view of the fact that no purchase price has as yet been established, it is proposed to carry these vessels at the nominal price of \$1 for balance-sheet purposes, and to leave all costs of repairs, betterments, and/or conversions in account 1000 "undistributed expenditures." Your comments on this proposal will be appreciated.

(Signed) WM. U. KIRSCH,  
*Chief, Budget and Accounts Section, Division of Finance.*

Mr. KIRSCH: In the above cases, I would suggest that you accumulate all costs of betterments and/or conversions in the "floating equipment account."

(Signed) Jos. M. QUINN, *Comptroller.*

DECEMBER 20, 1943.



## COPY OF INTEROFFICE MEMORANDUM

In reply refer to 5-35  
November 13, 1943.

To: Mr. J. M. Quinn, Comptroller.  
From: Chief, Budget and Accounts Section.  
Subject: Steamship *George Washington*.

At present, this vessel is being carried on the books at a residual value of \$71,300. However, there has been recorded, for repairs and conversion, total expenditures amounting to \$11,487,701.35.

As you know, this vessel was transferred to the War Department for operation, and in consideration of which a bill was presented them for this amount. However, on October 27, 1942, the Director of the Bureau of the Budget advised the general counsel of the War Shipping Administration, in reply to his letter of Sept. 15, 1942, in part as follows:

"After discussing this matter with representatives of the War Department and on examination of appropriations involved, it is my opinion that this expenditure might best be made from War Shipping Administration funds, which opinion accords with your previously expressed desires."

Should the expenditures for repairs and conversion be treated as expense or be capitalized as betterments, and if classified as betterments, upon what life should depreciation be based.

(Signed) Wm. U. KIRSCH,  
*Chief, Budget & Accounts Section, Division of Finance.*

Mr. KIRSCH: The expenditures referred to above should be capitalized as betterments and amortized over a period of 5 years.

(Signed) J. M. QUINN, *Comptroller.*

DECEMBER 30, 1943.

○



















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